With Our Readers

Sirs:

I would like to know what opinion is held by those better able to know than the "man in the street" about the rush of gold to this country. Will the prevailing price be forced down? Will our price for gold go back to the old figure of approximately $20 per ounce? —J. N., Detroit, Mich.

The price of gold is legally fixed by the Government. It was not changed from the former dollar parity to the present de-valued figure because of a shortage in our gold holdings but for the primary purpose of halting deflation and inducing a rise in commodity prices. The large movement of gold to this country over the past two years reflects to a large extent repatriation of American funds previously hoarded in gold abroad, together with a flight of nervous European capital into the dollar and, more specifically, into our securities. There is nothing in this movement, which is not necessarily permanent, to cause the Government to change the legal price of gold. The value of gold in terms of commodities is something else again. This has been declining for some time—that is, commodity prices have been rising—and this general trend is likely to continue for a period of years.—ED.

Sirs:

No doubt in the next election the best issue for the Republicans will be an attack on New Deal extravagance. However, there will never be any real economy in government for any length of time as long as we have our present tax system in which so much of the revenues come from so-called disguised taxes. The bulk of taxes should be in income taxes, with every employed person paying at least something four times a year. Despite their grumbling over taxes, many corporations could easily stand higher income taxes because their profits are going up now much faster than taxes are going up.—M. B. L., Cleveland, Ohio.

Sirs:

I subscribe to the belief that depressions and unemployment are the result of the overproduction of investments, which means that we try to save more that it is possible for us to save.

Up to a certain point, savings and investments are practically the same thing, because if we deposit money in a bank, the bank makes the investment for us and the results are the same as if we made the investment direct.

Now there is a limit to the amount of investments that can be made, which means that the number of railroads, bridges, office buildings, apartments, etc., that can be supported by the people of this country, cannot exceed a certain definite total.

This total is limited because of the fact that every single investment we make requires a certain number of hours of work to maintain its condition or value, since they are subject to constant depreciation. The hours required for the maintenance of these investments or savings are not supplied by the holder, for every investment must itself maintain its own dollar value.

Therefore, every additional investment we make, increases the number of hours of work that must be applied to their support. But there is a limit to the total number of hours the people of this country can work, so the limit of investments will be reached when the number of hours of work required for their support exceeds the number of hours of work the people of this country are willing to devote to that purpose.

When the limit of investments has been reached and it becomes unprofitable to continue building or creating capital goods investments, we have reached the point where it is utterly impossible to increase the total of bank credits, or as they are called—savings accounts. These accounts can only increase when a bank can find a profitable and safe investment. From this very instant, saving assumes an entirely different character. It becomes a definitely destructive force, causing unemployment, preventing business transactions, upsetting the whole economic life of the community and in reality it becomes a criminal action.

The saver acts as if there was no limit to the size of the house he could build for the non-saver, so he keeps building and building the while employing the non-saver in its construction. But eventually the rent becomes more than the non-saver can pay, so the saver stops building—the house is worth nothing because the non-saver, having no job, cannot pay the rent and we have paved the way for a depression.

The solution to this problem lies in a plan allowing a control of interest rates, which will make minus interest rates on bank credits possible, so that when unemployment is prevalent, a condition can be created that will result in a competition for savings accounts. The effect of this would be that a person willing to take the lowest rate of return on his money, would be entitled to maintain a savings account, while others, unwilling to accept such a low rate of return, will either spend their income for their own personal satisfaction or consumption, or they will refuse to accept that income

With this condition we will achieve continuous prosperity and will be able to entirely control all forced unemployment.—R. S. A., Detroit, Mich.

Sirs:

I hope that you may give us an article on "Taxes and the Investor"—since they do encroach so much on one's income—one must know from year to year what per cent one can expect to apply to personal income tax. Your articles could also include non-taxable investments, even though most of us know what they are there is always something new to learn and young men and women who read THE MAGAZINE OF WALL STREET learn a great deal by learning fundamentals.

I know, my husband and I did, years ago—and I assure you it is my mainstay today in giving me confidence. —B. O. K., Colorado Springs, Col.

Sirs:

Mr. Gay of the Stock Exchange warns that we are headed for a credit jag and then a headache. Mr. Morgenthau of the U. S. Treasury sees nothing to worry about. Which is right? To me it seems a bit early, to say the least, to be talking about a boom when business is still depressed and there are millions out of work and on public relief. Wait until the depression is over before we talk about a boom.—R. K., Atlanta, Ga.

Member of Audit Bureau of Circulations

CONTENTS

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The Ticker Publishing Co. is affiliated by common ownership with the Investment Management Service and with no other organization or institution whatever. The Ticker Publishing Co. publishes only The Magazine of Wall Street, issued bi-weekly, Adjustable Stock Ratings, issued monthly and the Investment and Business Forecast, issued weekly. Neither The Ticker Publishing Co. nor The Magazine of Wall Street nor the service affiliated with them have anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.

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WITH THE EDITORS

The Odds Against You

ONCE more a few lucky winners out of some 3,000,000 people gambling on the Irish sweepstakes have had their day in the spotlight. We imagine their first feeling of elation that Lady Luck chanced to smile upon them, although the odds against her doing so were almost astronomical, has by now been sobered somewhat by calculation of the taxes they will pay.

Most of the winners are people of modest circumstances. It would be our guess that not one of them ever gave any thought to the onerous burden of income taxes in the higher brackets. Probably they have shared the prevailing belief that "soaking the rich" is a good idea, without realizing that burdensome income taxes inevitably tend to stifle the initiative of capital and to drive it into the snug harbor of tax-exempt bonds, rather than into productive enterprise.

"Three New Yorkers Get Sweeps Fortunes of $147,300 Each," say the newspapers. They get no such thing. On this sum the Federal income tax is $57,916 and the New York State income tax is $12,400, leaving the winner with $76,984.

Taxes are part of the odds—which are otherwise always considerable—that we face in a gamble, in a speculation or in an investment. Our Government's idea of what constitutes income is a decidedly inclusive one. When you buy a stock you pay commissions and taxes, and when you sell it there will again be costs to pay. If you break even and get for it what you paid you will nevertheless lose money. If you make a big profit you will have to hand over a generous share to the Government and probably to your state government. If you suffer a heavy loss, on the other hand, you can only offset it against your profits, if any. If you have no profits, you can not deduct the loss from your normal income from your salary or your business.

This is one reason why our bull markets tend to go to extremes. Large holders of stocks with fat profits are reluctant to cash them in because the Government will take as much, if not more, than they can retain for themselves. To them it is a somewhat academic question whether they think their particular stock is or is not selling too high in relation to its earnings and prospects.

If you are an investor you will be lucky if your company can pay you as much in dividends as it pays in taxes. It's a sad story—but probably most of us will go on speculating and investing. However long the odds, it is always possible to beat them. That's why we keep on trying.

In The Next Issue

Which Industries to Buy for 1936 Profits

By John D. C. Weldon

A Forecast of Democratic Political Strategy

By Thomas L. Godey

How Much Will Social Security Cost the Stockholder?

By John C. Cresswill

Profit Prospects in Low-Priced Motors

By Stanley Devlin

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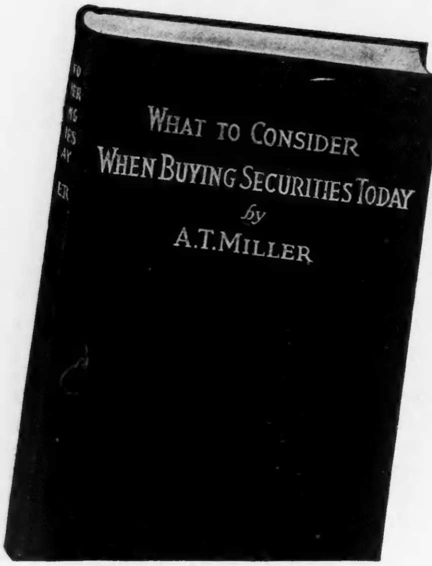

This book is one of the most valuable and useful works on investment we have ever published. Its principles, used in conjunction with the regular reading of THE MAGAZINE OF WALL STREET, can prove of dollar and cents value to every investor—every trader. No dry theory but a clear, simple exposition based on those principles advocated by THE MAGAZINE OF WALL STREET for success in investing.

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—The consequences pro and con of currency and credit inflation.
—Investment opportunities born of the business depression.
—What constitutes safety of principal.
—Selecting bonds from the low-priced list.
—Judging foreign bond values.
—When to look for profits through receiverships.
—Opportunities in railroad bonds.
—Detecting the real opportunities for profit in bonds.
—How to judge a company's strength.
—How important is book value today.
—Quick or long range profits.
—Long and near-term security movements.

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The Trend of Events

BEAR BY THE TAIL

IN the thorny problem of relief the Roosevelt Administration has a bear by the tail and no simple way of letting go is apparent. The essential danger of the present expensive and inefficient program, as publicly stated by Victor F. Ridder, Works Progress Administrator for New York City, is that it may make W P A so "pleasant and secure that people just come here and stay."

Specifically, he added in a recent press conference, there is a growing shortage of workers in the building trades, and "a lot of paving contractors, taxicab people and various contracting groups are complaining."

Here we have tacit official admission that a "security wage" relief program formulated on the premise that it must not compete with private employment is doing just that. No clairvoyance is required to see inevitable ultimate disaster in a setup under which for various reasons large numbers of individuals find public relief preferable to seeking or accepting private jobs.

With few exceptions, the fault is not with the relief recipient but with the system. As compared with an assured relief income of $20 a week or more, a private job of uncertain duration at the same or lower wages can hold no appeal for the average individual. To make matters worse, the W P A worker well knows that if he accepts and later loses private employment he will experience difficulty and delay in getting back on relief.

In the final analysis there are only two ways this difficulty can be resolved. One way would be to raise private wages substantially and guarantee the continuity of private employment. That, despite idealistic theories held by some at Washington, is quite impossible, for by and large business pays the highest wages its revenues permit. The other way—and the only practical way—is to cut relief wages to at least a moderately "unpleasant" level and at the same time put the system on a much more flexible basis so that the deserving unemployed can enter it and leave it in a much more certain and expeditious manner.

The income and credit of the Government rests upon the earnings of the private economic system. If that system can not offer the individual assured employment at wages equal to the present relief wage how long can the Government do so without fiscal disaster? Under the New Deal or the old deal or any kind of deal two plus two still equals four and not five.

MAYBE THE FARMER LIKES IT

SOME fear was expressed by political farmers that the dirt farmers would vote for no more corn-hog control by A A A, or that the majority favoring it would be so small that its administration would be futile. This

fear was largely the result of the intention of A A A to encourage the pig birthrate next year, which would manifestly discourage the profitable business of non-raising of hogs. It was suspected that the farmer was too human "out where the tall corn grows" to favor a program that meant the substitution of action for inaction as a means of producing wealth. But it appears that the farmers have come to the conclusion that liberal production would have been more profitable this year than restricted production. They hope, perhaps, that next year their guardian angel will arrange economics so that they make more money raising hogs than they have made recently by not raising them.

There is however a less facetious interpretation of the 10-to-1 vote for continued control, and that is that the farmers like it, whether in forward or in reverse. If these proverbially independent men have come to like regimentation, the outlook for rugged individualism in general is not bright. Actually, the farmers have tried for many years to regulate their business by co-operative action, and in some minor lines they have succeeded. It may be that they prize the results of "collective bargaining" in their field more highly than they regret its attainment by the surrender of individual initiative and independent management. Business men submitted enthusiastically to Code regimentation under N R A until they found that it was a practical failure. But what if it had been so managed that for them that they couldn't lose?

A A A may yet run into the disaster of disappointing the farmers—which it may do when it aims at increased production. Nature fortuitously collaborated with restriction of production, but she may work against the success of regulation of production toward increase. If regimentation should coincide with a collapse of farm prices, the consequences would not be favorable to its continuation.

A A A or something like it was bound to be tried, sooner or later. We do not summarily wish it ill. It may vindicate itself by its works—and so long as it remains in the power of the farmers to take it or leave it by democratic action, there is no reason why we others should worry—provided that in getting a square deal for the farmers a crooked deal does not come to non-farmers.

WHERE RECOVERY COUNTS

GRATIFYING as may be the gains of recent months in industrial production and trade, the vital thing is recovery in employment. Here is the last stronghold of depression. Here is the major cause of the continuing Federal deficit. Hence the best news in a long time is the report of the National Industrial Conference Board that the number of the unemployed at the end of September had declined by 927,000 from the comparable date a year ago.

This is an estimate, as are all unemployment statistics; but it is made carefully and without bias. The figure is even better than it seems for it includes allowance for the annual increment in available workers as young people come of age.

Two things about this showing are notable. First, the greater part of the gain has been experienced since N R A was terminated late last May, there having been a decrease of 655,000 in unemployment in July, August and September. Second, in the very field where technology is most potent—the manufacturing industries—the reduction in unemployment in these three months was 454,000.

In the light of this experience the contention that what this country needs is greater Federal regulation of industry—still voiced by some of the New Deal theorists and hinted by the President himself up until a few months ago—becomes increasingly ridiculous. On the contrary the evidence suggests that what we really need is more business and less government.

LET'S DEVALUE THE LOAF

BECAUSE of his assignment to the role of Mad Hatter in our present-day Alice in Wonderland, it is not surprising that the Secretary of Agriculture should flay, with a perfectly straight face, the bakers for proposing to raise the price of bread, despite the tremendous advance that has taken place in the cost of their raw materials, their labor and their taxes. Even the most cursory examination of the big baking companies whose stocks are listed on the New York Stock Exchange will show no signs of undue prosperity. Says the Secretary in effect: "To raise the price of bread is a crime against the people; but, on the other hand, if you bakers feel that you really have to do something, then why not a slight reduction in the size of the loaf?" Come, come, Mr. Wallace! Must the once fashionable dollar devaluation be extended to the people's bread?

MORE WAYS THAN ONE

IN the last session of Congress there was passed the Guffey Coal Act, under which it was sought to set up a little N R A for the bituminous coal industry. Operators are to be taxed 15 per cent of the sale price of their coal and then, to those that comply with the "code," there will be refunded 90 per cent of this tax. Now, the Supreme Court declared the N R A codes to be unconstitutional and furthermore that the coal industry is not in interstate commerce. Thus, to the ordinary mind the Guffey Act is patently unconstitutional. Nevertheless, our New Dealers know how, as a practical matter, to get around such an obstacle. In the case of the Guffey Act the method of circumvention lies in the little clause requiring anyone making a contract with the Government to buy no bituminous coal that is not produced by an operator who conforms to the ruling of the board established by the Guffey Act. This should rope in the railroads, for they will be ineligible for mail contracts if they buy their coal from a producer who has not conformed with the "code." Last year the railroads spent $180,000,000 for coal and received about half this sum for carrying the mail. It will also tend to rope in almost every other business; Chevrolet will be unable to sell the Govern-

ment any trucks unless General Motors buys Guffeyized coal; the steel companies no steel for post-offices, bridges, etc., unless smelted with coal produced in Guffey-regulated mines; and so on *ad nauseum*. The Guffey Act is of tremendous importance; on its fate hangs the difference between a free people and a regimental people. Let us hope that the country, or the Supreme Court, will make it plain that the United States does not want; and will not countenance, "legal trickery for the purpose of attaining a patently illegal objective."

GREAT NORTHERN FINANCING

THERE once was a time when there was no "railroad problem" in this country and most rail systems could arrange financing very easily. But that was some time ago. Today it is news of no small interest if a railroad contemplates a major refunding operation with considerable assurance that it will be successful.

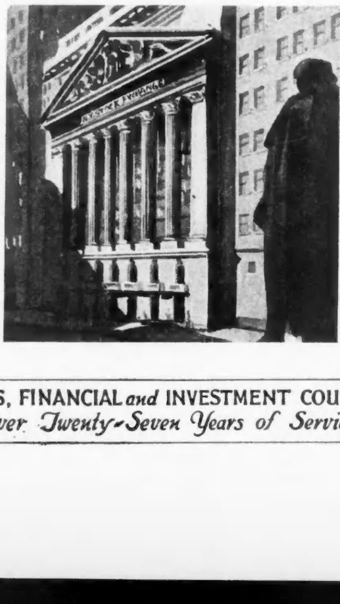
The road is Great Northern and its problem is $107,000,000 of 7 per cent bonds maturing next year. Of course, Great Northern is a better than average railroad and is earning fixed charges this year with a bit to spare after failing to do so in 1932, 1933 and 1934. Yet its credit status is not by any means such as to make a $107,000,000 maturity a mere trifle.

Here a bit of luck enters the picture. When these bonds were issued the maturity date might just as well have been made July 1, 1932—a year in which Great Northern earned less than one-third of fixed charges and a time when no one except the R F C would lend a dime to any railroad. Instead; the maturity falls at a time of great ease in money rates, marked revival in credit confidence and gradual recovery in traffic.

Issuance of a convertible bond is expected to be approved by a meeting of stockholders on December 20. Some observers believe a bond carrying only 4½ per cent coupons, with a convertible feature, could be marketed, effecting a saving of $2,600,000 a year in interest. It is to be doubted that all of the loan will be privately financed. The R F C has already offered to take half.

TURN IN MONEY RATES?

EVIDENTLY believing or hoping that the bear market in money is over, New York City banks show an intention of demanding a "living wage" for their funds by jacking up call and time money rates. Time money rates of three to six month securities have been advanced from ⅜ of 1 per cent to ½ of 1 per cent. The call money rate on the Stock Exchange has been raised from ¼ of 1 per cent to ¾ of 1 per cent.



It need hardly be observed that the increased rates remain abnormally low. Whether they will either become general or usher in a significant trend of rising interest rates remains to be seen. Deposits and excess reserves not only are at record highs but continue to increase. On the other side of the picture, very little change has occurred in demand for credit.

Nevertheless, even if the present movement is no more than an experimental gesture, it suggests an increasing view than bottom has been seen in money rates and that the next major change, whether slow or not, will inevitably be toward higher rates. It is not a particularly favorable indication for the longer term aspects of gild-edged bonds.

CONTRASTS IN THE METAL STOCKS

RECENTLY, few groups have been stronger in the stock market than the metal shares. The price of copper may ease a little and the demand fall; yet, copper stocks go merrily forward. Despite large supplies, lead and zinc shares reflect an optimism which is not easy to justify entirely from a statistical standpoint. The demand for the shares of the metal companies appears to be a subtle combination of a more hopeful business prospect, possibilities in war and re-armament demand and, in the background, the potentialities that they possess in the event of inflation. Taking due consideration of the psychological aspects of the situation, it would be reckless indeed to prophesy their failure to scale still dizzier heights. In any event, what a contrast there is between the producers of the baser metals and those which give us the most generally desired of all, gold. Gold stocks, measured by representative averages, are drifting to lower levels—an action which is possibly more logical than the soaring tendencies displayed by their baser contemporaries. Gold stocks are suffering from the removal of the speculative froth which was put on them by dollar tinkerings. As the conviction grows that the Administration will not further devalue the dollar, at least in the reasonably near future, less speculatively attractive do the gold stocks become. At the same time, the belief grows that it will not be long, if it has not happened to some extent already, before rising commodity prices adversely affect the present low cost of producing gold. Hence, while many gold stocks are modestly priced in relation to their current earnings and dividends, their road to the future is dotted with question marks.

THE MARKET PROSPECT

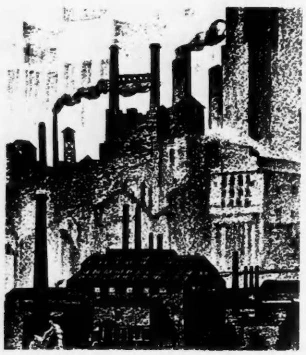
OUR most recent investment advice will be found in the discussion of the prospective trend of the market on page 64. The counsel embodied in this feature should be considered in connection with all investment suggestions, elsewhere in this issue.

Monday, November, 4, 1935.

What's Ahead for the Market?

By A. T. Miller

OVER the past fortnight selective rallying tendencies have lifted the general market level to a new high by a moderate margin. This performance was followed, in the order named, by hesitation, several sessions of technical dips and, as this article is written, by renewed efforts at general rally on increased trading volume.



As the accompanying chart shows, this recent movement represented a penetration on the top side of the trading range that had prevailed for two months and in which selective strength in various groups, notably motors and accessories, had been offset by negative action in as many other groups.

On the face of it we seem, therefore, to have had a technical signal which in every previous instance since last March has inaugurated a new phase of worth while advance. We are reluctant to argue with such a signal, yet we are frank to state that we have no deep faith in it at a time when the market has been in persistent advance for some seven months and when the majority of stocks appear rather generously to have discounted about all we can see in this year's business prospect.

Running Ahead of Business

As a further glance at our chart will also show, the market rise to date has been much steeper than the rise in the business index, the latter having been characterized by steadiness and gradual improvement, rather than by anything as dynamic as the accompanying speculation.

The business trend, of course, is not the only factor at work. Others include the credit factors frequently discussed in these articles and notably the Government's deficit financing; the confidence psychology now prevailing; the fact that heavy income taxes tend to restrain large holders of stocks from taking profits; and, finally, the capitalization of all the above factors in professional speculative operations whether manipulative or not as manipulation is interpreted by the S E C.

Among these varied factors the most difficult to appraise in forecasting the probable stock market movement are the confidence factor and the power of professional speculative operations. In any bull market these two together will from time to time over-play the tangible business and credit factors sufficiently to justify corrective reaction of intermediate scope.

Our belief is that we are probably close enough either to such a reaction or to a "stop-look-and-listen" period of hesitation to suggest the wisdom of exercising caution in new intermediate trading commitments or investment purchases.

As for the business picture, it is favorable for the rest of the year; but not more favorable than has been long anticipated. The big element in it is rising production of automobiles, due to the advance of two months in timing of the new models. Since this change is an experiment, forecasting its results presents certain possibilities of error.

It now appears that fourth quarter motor production will exceed 700,000 units and may exceed 800,000. This, of course, is a huge gain over the fourth quarter of last year, but in analyzing its influence upon aggregate business activity one must remember it will not be greatly larger than was third quarter production, while in both the first and second quarters of this year production exceeded 1,000,000 units—without over-taxing sheet steel makers or other suppliers of materials as some present ballyhoo would have us believe is to be the case in the fourth quarter.

Against this new seasonal influence in the motor industry and the normal seasonal lift in retail trade, various other components of the business index, including car loadings, production of bituminous coal and lumber, will be under seasonal decline. Any further lift in steel operations above the present level of 53½ per cent of capacity will have to depend on support from the motor industry and, allowing for seasonal decline in other directions, is not likely to be more than moderate.

Speculative Climax?

Considering the large part motor and motor accessory stocks have played in the market during recent months, the question whether the National Automobile Show—opening as this is written—may mark a temporary speculative climax in these stocks or possibly in the general run of market leaders will be well worth close watching.

Since there is no apparent reason for diminished faith in the longer business prospect and no reason to anticipate a reversal of the credit policies being followed at Washington, we wish to emphasize that we have no expectation of a genuine liquidating movement developing now or as far ahead as we can see. The worst that we can see in the present basic setting is merely a normal speculative correction of intermediate proportions, say 10 to 15 per cent in the composite averages.

Whatever may be the psychology of the investment holder of equities, however, we entertain considerable

Regardless of further trading rallies in the market, we believe an intermediate correction worth avoiding is not far ahead. On this prospect together with continuing European uncertainties we advise that new commitments be deferred for the present.

doubt whether speculative operations, increasingly prominent in recent weeks, can transfer from discounting the autumn prospects to discounting next year's prospects without some pause. We think it not only a bit early to begin talking about what may happen next spring, but a bit rash to assume that the convening of Congress just two months hence and coming Supreme Court decisions on several matters of basic New Deal policy can be dismissed as sources of at least some business and stock market uncertainty.

Possibly on the theory that familiarity breeds contempt, the market has shown apparently increasing apathy to the rapidly shifting news from Europe, where international tension is running up and down like an intermittent fever—and up, as it happens, as this article is written. Our guess is that a crisis probably is not imminent, since the British Government has little inducement to reveal its full hand until after the British national election on November 14.

Nevertheless we are unable to detect in the European news any softening in either the British or the Italian attitude but, on the contrary, a stiffening of both. Preparation of economic sanctions against Italy by members of the League of Nations goes persistently on. What the outcome will be is beyond forecast. However immune to this continuing uncertainty in-and-out traders may be, it can not be dismissed, in our opinion, as additional reason for caution in purchases for intermediate holding.

Thus far charges preferred by the S E C against a prominent market operator and persistent reports of increased investigating activities by this agency have had no appreciable influence upon the market. It need scarcely be said that such manipulation as is present in this market is necessarily under close cover, since definitely illegal. Hence, the part that it has played in the recent movement and is playing today is wholly conjectural. Our opinion is that it is a distinctly secondary part, although the relative scarcity of shares in supply—a scarcity due to the basic investment factors at work—obviously plays into the hands of the professional element and makes "constructive operations" attractive even though public speculative participation remains but moderate, as indicated by the low level of brokers' loans. In connection with the latter, it is worth bearing in mind that a considerable volume of speculation on the floor of the Stock Exchange does not find reflection in speculative borrowings, since the bulk of such transactions are closed out daily.

Rail shares continue to be the most disappointing group in the market, and since car loadings have now passed their peak for the year it is difficult to see anything more than temporary speculative support for the majority of these issues at present. Utility equities, on the other hand, are at this writing in their fourth consecutive week of gradual advance, reflecting new record highs in consumption of electricity and moderately improved net earnings for the majority of the electric systems. Nevertheless the longer trend of taxes and costs of materials is such as to suggest that the investment advantage continues to lie overwhelmingly with carefully selected industrials.

That the odds against the intermediate trader have lengthened greatly is suggested by the fact that, despite recent rallies, the net advance in our composite index in some ten weeks, or since the third week of August, has been around 7 per cent, whereas in the twenty-three weeks from mid-March to the third week of August it had been 48 per cent.

What Third-Quarter Earnings Indicate

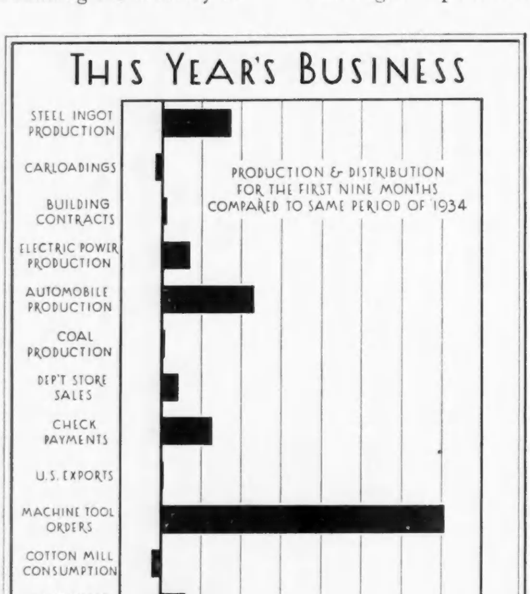
For the fourth quarter — For next year

Significant Improvement in Earnings Trend Noted in Some Industries While Others Lag

By J. C. Clifford

THE corporate reports covering the third quarter of 1935 which have been made public so far, compare, on the whole, very favorably with the ones issued for the same period of last year. It is, of course, difficult to generalize, but it would be a fair estimate that the country's better-known corporations earned on an average between 20 and 30 per cent more than in the third quarter of 1934. As is always the case, there were tremendous variations between the showing made by different industries and even between different companies in the same industry. One thing, however, is becoming more and more pronounced; it is the manner in which the recovery in the semi-durable and durable goods industries is out-running the recovery in those industries which did the best during the years of depression. Indeed, many of the latter are not currently doing as well as they did last year nor even as well as they did in the depths of 1932.

Although the companies in the semi-durable goods division still lead the field in the recovery race, those in the strictly durable section are coming ahead fast. Among the former, the automobile and automobile accessory companies stand out. The recovery here has been truly remarkable; the seasonal slackening which usually is experienced in the third quarter was much less than normal while, because of the introduction of new models in October and November instead of in January and February, the fourth quarter will be better than any similar period for years past.



For the third quarter of this year, General Motors reported a net profit of $30,753,088, or nearly 35 per cent more than was reported for the September quarter, 1934. This, after preferred dividends, was equivalent to 66 cents a share of common stock and compared with 48 cents a share last year. For the first nine months of 1935, the company's earnings—some 23 per cent ahead of last year—were equivalent to $2.51 a share of common, whereas in the comparable 1934 period only $1.99 a share was reported. The outlook for the fourth quarter being what it is, General Motors should show in the neighborhood of $3 a share for the full year, or just about the same as the $3.04 a share which was reported for 1930 when, it will be remembered, the depression was not thought generally to be serious.

Although competition in the automobile industry undoubtedly is extremely keen and perhaps promises to become keener, General Motors' profit margin in the third quarter showed no untoward leanings. Dollar sales were up 10 per cent and net profit was up 34.5 per cent—the normal result of a larger volume of business. With the clear indication that there will be no drastic reduction in automobile selling prices and with the equally clear indication that the coming year will be a good one from the standpoint of business volume, General Motors is looking forward to a period of very fair prosperity, now that there seems to be no chance of an upward swoop in costs such as was caused by N R A in the latter part of 1933 and in 1934.

The majority of the smaller automobile manufacturers have not as yet reported for the third quarter, but it is known from their shipments that most of them have done comparatively well. Because purchasing power still trends upward,

it is thought that the swing to the low-priced field which was such a feature of the "hard" years may at least be arrested, if not reversed. For this reason the outlook for manufacturers catering to the medium-price field has greatly improved.

The improvement reported by the automobile accessory companies for the third quarter is possibly even more pronounced than the recovery registered by the automobile companies proper. A compilation of a dozen or so companies shows that they earned about three times as much as in the third quarter of 1934. For example, Bendix Aviation earned the equivalent of 16 cents a share of common against 11 cents last year; Bohn Aluminum 42 cents compared with 35 cents; Borg-Warner 99 cents compared with 44 cents; Eaton Manufacturing 32 cents against 13 cents and so on. Although no reports are available, the tire companies comprise the one important exception to the prosperity being enjoyed by the automobile accessory companies. Here, price cutting has broken out again and there is no clearly defined prospect that cut-throat tactics will be stopped and the industry placed on a profitable basis within the near future.

In a somewhat similar field of endeavor to the automobile and automobile accessory companies are many manufacturers of machinery and equipment. The majority of these, too, have done very well, although their percentage gain has been less than that registered by the automobile and automobile accessory companies. Among the electrical equipments, third quarter reports on both General Electric and Westinghouse Electric & Manufacturing, the two largest independent units in the field, are available. The former reported a profit—computed by comparing the reports for nine months and six months—of $5,663,903 after charges and taxes for the September quarter. This was equivalent to 20 cents a share of common stock and compared very favorably with the 12 cents a share shown for the third quarter last year. For the nine months this year, earnings, equivalent to 60 cents a share, were almost 50 per cent better than those for the corresponding period of 1934. Orders booked in the third quarter, although not quite up to the total of the second quarter, contrasted well with the marked decline which had occurred over the similar period of last year. Sales billed for the nine months were 23 per cent over those of last year.

General Electric's smaller contemporary, Westinghouse Electric, has made a sensational recovery from the point of view of both earnings and market appreciation. For the September quarter

Third-Quarter Earnings of Important Companies

Company	Third Quarter 1935	Third Quarter 1934	9 Months 1935	9 Months 1934
Air Reduction	$1.66	$1.04	$4.66	$3.70
Allis-Chalmers	0.61	def	1.03	def
Amerada Corp	0.56	0.54	1.60	1.87
American Chicle	1.62	1.25	4.57	3.44
Amer. Tel. & Tel. (parent co.)	1.69	1.51	4.85	4.82
Atlantic Refining	0.61	0.89	0.71	2.02
Atlas Powder	0.98	0.49	1.86	2.19
Beech-Nut Packing	1.22	1.07	3.16	2.74
Bendix Aviation	0.16	0.11	0.93	0.83
Bethlehem Steel	0.75p	def	2.03p	def
Bohn Aluminum	0.42	0.35	3.12	3.58
Borg-Warner	0.99	0.44	3.51	2.04
Bristol-Myers	1.20	0.77	2.66	2.23
Brooklyn Union Gas	N. F.	N. F.	2.65	3.19
Caterpillar Tractor	0.74	0.46	2.29	1.56
Chrysler Corp	1.04	0.28	5.35	2.17
Commercial Credit	1.64	1.11	4.29b	2.83
Consolidated Gas of N. Y.	0.04	0.06	N. F.	N. F.
Corn Products Refining	0.42	0.94	1.61	2.34
Du Pont de Nemours	1.48	1.24	3.22	3.10
Electric Bond & Share	0.02	0.03	0.15	0.30
Eaton Manufacturing	0.32	0.13	1.82	1.29
General Electric	0.20	0.12	0.60	0.41
General Foods	0.55	0.60	1.67	1.72
General Motors	0.66	0.48	2.51	1.99
General Railway Signal	0.77	def	1.27	def
Hazel-Atlas Glass	1.79	1.29	4.98	3.88
Hercules Powder	0.89	0.77	2.90	3.23
Industrial Rayon	0.26	0.21	0.69	2.01
Inland Steel	1.25	def	4.63	2.65
Int. Business Machines	2.45	2.35	7.39	7.18
International Cement	0.48	0.29	1.20	0.85
Jones & Laughlin Steel	0.40p	def	def	def
Johns-Manville	0.86	0.38	1.57	0.26
Libbey-Owens-Ford	0.52	0.11	2.21	1.11
Loose-Wiles Biscuit	0.50	0.49	1.60	1.64
Mathieson Alkali	0.35	0.29	1.03	0.93
Marshall Field	0.52p	def	def	def
McIntyre Porcupine	1.15	1.20	2.18	2.39
Motor Products	0.13	0.23	3.67	1.29
National Biscuit	0.40	0.35	0.94	1.21
National Cash Register	0.18	0.14	0.61	0.75
National Distillers	0.67	1.24	2.08	4.11
National Steel	1.06	0.16	3.99	2.12
Packard Motor	0.03	def	0.05	def
Penick & Ford	0.51	1.05	1.80	2.31
Phillips Petroleum	1.16	0.41	2.37	1.01
Procter & Gamble	0.53	0.61	N. F.	N. F.
Republic Steel	0.85p	def	0.28	def
Schenley Distillers	1.64	1.01	4.53	5.08
Shell Union Oil	0.25	0.07	0.21	1.37p
Southern California Edison	0.76	0.47	1.19	0.79
Standard Oil of California	0.39	0.45	1.20	1.01
Timken Roller Bearing	0.54	0.17	2.41	1.24
Underwood-Elliott-Fisher	0.72	0.61	2.78	2.56
Union Carbide & Carbon	0.68	0.48	1.86	1.49
United Gas Improvement	0.25	0.26	1.13	1.19
United States Steel	def	def	def	def
Westinghouse Air Brake	0.02	0.06	def	0.07
Westinghouse Electric	0.96a	def	3.31a	def
Wrigley, Wm., Jr.	1.06	1.11	3.00	3.09
Youngstown Sheet & Tube	3.83p	def	0.69p	def

p—On the preferred stock. a—On the combined common and preferred. N. F.—Not available. b—On average number of shares outstanding.

this year, the company reported earnings of $2,557,452, after depreciation and other charges. This was equivalent to 96 cents a share on the combined common and preferred and brought earnings for the nine months to $3.31 a share. Last year, the company lost $332,062 in the September quarter and $363,787 for the nine months. During the depression Westinghouse lost in all well over $20,000,000 but has ended the unhappy period in a more than ordinarily strong financial position.

Although the heavy division of the electrical equipment industry is still not all that might be desired, nevertheless it has improved appreciably. In the meantime, household electrical equipment and countless other lines manufactured by the two companies has done, and continues to do, well. The outlook for the third quarter is bright and looking even further ahead no serious clouds are to be discerned on the horizon.

Other equipment and machinery companies also are enjoying much improved business. Allis-Chalmers, for example, moved very definitely from the "red" to the "black" this year, earnings for the third quarter being equivalent to 61 cents a share of common against a loss last year. The farm equipments, of course, are doing very well as a result of the farmers' increased purchasing power, both real and artificial. There are, however, no interim reports on the most important companies in this field and one will be obliged to wait until the spring of next year before obtaining concrete evidence of the degree of recovery attained. Although General Railway Signal's earnings of 77 cents a share for the third quarter was very much better than the deficit reported last year, the railroad equipments as a group continue to lag behind other divisions. It may be, however, that they now stand at the dawn of a better day, for there were remarkable gains in railroad net operating income during September and even moderately prosperous railroads means larger equipment orders.

A considerable number of steel companies have issued their reports for the third quarter of this year and their greatest significance seems to be the manner in which the manufacturers of heavy steel are at last catching up with those making lighter products. For some time the chasm between the maker of sheets and strip steel for the automobile, refrigerator and other industries, and the maker of heavy structural and other steels, had been very wide. It has begun to narrow, however, and the process seems to be proceeding apace.

United States Steel, by far the largest factor in the industry, reported an operating profit of $13,469,570 in the September quarter this year, compared with $3,768,863 last year. Although this, after depreciation, depletion and other charges, eventually became a net deficit of $1,305,205, it was a great improvement over the net deficit of $9,826,767 reported for the third quarter of 1934. A showing similar to this was made by other heavy steel manufacturers. Jones & Laughlin earned 40 cents a share on its preferred stock in the third quarter this year, compared with a deficit in 1934; Republic Steel, which possesses a number of important light divisions, earned 85 cents a share on its preferred in the third quarter of this year, compared with a loss in the corresponding period of 1934; while Youngstown Sheet & Tube earned $3.83 a share on the preferred compared with 69 cents a share last year. Inland Steel, reflecting the activity in the automobile industry earned $1.25 a share of common stock in the third quarter of this year, reported a deficit in the similar period a year ago, while nine months' earnings in 1935 were $4.63 a share, against $2.65 a share in the first nine months of 1934.

Chemical companies on the whole continue to report improving earnings. Because this industry always held up comparatively well, however, even during the depths of depression, its recovery has been much less spectacular than those harder hit. Air Reduction in the third quarter this year reported earnings equivalent to $1.66 a share of common, compared with $1.04 last year, while the nine months' profits were equal to $4.66, against $3.70 in 1934; du Pont showed $1.48 for the third quarter, compared with $1.24, and for the nine months $3.22, against $3.10 last year; Union Carbide 68 cents for the quarter, compared with 48 cents last year and $1.86 for the nine months, compared with $1.49 last year. Hercules Powder's earnings of 89 cents a share for the September quarter, 1935, were better than the 77 cents reported last year, although nine months' earnings of $2.90 were lower than the $3.23 reported for the first nine months of 1934. This is mainly a reflection of the unsatisfactory textile situation in the forepart of the current year.

The oil companies whose reports have been made public so far can hardly be considered representative of the industry. On the data available, the showing is mixed. Amerada earned 56 cents a share in the September quarter, this year, against 54 cents a share in 1934, while the nine months' results were $1.60 and $1.87, respectively; Atlantic Refining's earnings were off somewhat in the third quarter and off badly for the nine months. On the other hand, Phillips Petroleum did much better in both the third quarter and the nine months, this year, than last. Shell Union Oil likewise has registered considerable improvement.

The oil situation currently indicates justification for a more hopeful attitude. Gasoline consumption is holding up unusually well and the ratio of crude production to consumption is well in hand throughout the country, except in California. However, even in this state the situation is now much more hopeful than in the recent past. With the prospects of a good automobile year in 1936 and because of continued recovery in general purchasing power, it is probable that oil securities from this point on will be less pronounced laggards in the market. Those which have enjoyed the most favor and which should continue to lead are the companies with the largest reserves of crude.

Nesmith Photo

Reflecting a continuance of the difficulty they have experienced in maintaining profit margins, the trade-mark food companies failed to report anything in the way of material gains for the third quarter. General Food earned 55 cents in the quarter, against 60 cents a share last year; Loose-Wiles 30 cents against 49 cents; and National Biscuit 40 cents in the third quarter this year, compared with 35 cents in the corresponding period of 1934. On the other hand, earnings of the chewing gum companies continue to run close to record levels,

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Brains Cost Money

Some Observations on the Compensation of Management and Its Relation to Profits

By E. J. Kulas
President Otis Steel Co.

Bachrach Photo

E. J. Kulas

A BANKER with a bent for humor and a sound statistical mind figured out not long ago that the technical and productive skill of American industry is sufficient to rebuild every factory, skyscraper, bridge, tunnel, railway and hot dog stand now extant in a five year plan—if we could find the right man to direct it. Either of those jobs would be quite a sizable one—the work itself or finding the man—but the "if" is very little.

Perhaps that will explain why some of the profound minds at Washington have overlooked it. It may explain, also, why they find themselves stymied by the relatively small task of trying to adjust the existing machine. Any man can solve any problem if he can ignore the real premise and set up his own. The "if" is an essential part of the premise that government ought to be able to run every industry in the country.

These observations are inspired by the idea now being promulgated that the salary an executive is paid should be considered apart from its source. In the long run that source cannot be anything except what he can earn. If the salary is too high the recipient will be fired eventually, by the receivers if not by the directors. What the New Deal economists overlook is that if it is too low he may quit and go fishing.

In my opinion that is one of the greatest dangers business is facing today in the United States. We have the largest backed up demand for everything man can use in recorded history. We have the skill to produce it, the money and credit to pay for it. We have or are developing executives capable of seeing that the demand is supplied, but the government by legislative and administrative acts is making it more and more difficult or uninteresting for them to function.

That is what the banker had in mind. He was trying to tell investors what they really buy when they put their savings into stocks or bonds. On their face, these securities represent an equity in such material things as plants and machinery, or a guarantee of a certain return from the profits of these tools. Actually the investment is in a man or a group of men—the management behind the machines—and all men are not alike.

The New Deal suggests that they are, but that ukase does not make them so. What it does do is to set up a nation-wide movement toward the reduction of executive salaries in which people from all walks of life are participating. The irony of the situation is that one of these groups—the investor—will be called on to bear the brunt of enormous losses if the movement is carried to such a point that it destroys the incentive for industrial leadership.

Such a possibility is not so far-fetched as it may sound to the uninitiated. As long ago as last May it was predicted by a noted New York tax consultant, George P. P. Bonnell. His observations cover potteries, food manufacturing plants, cotton mills—a cross section of the industrial life of the nation. Mine are primarily in steel, but I have talked with executives in many other lines whose pay has been arbitrarily and needlessly reduced, even in the face of rising profits due to their energy and acumen. It is only human that they should not like it.

Let me give a specific example. A man of my acquaintance is paid today $50,000 a year—and that sum represents a substantial cut from his former salary. He got to his present post by reason of long experience in his industry and the accumulation of a substantial fortune through careful investment of his surplus earnings. He was selling not only administrative ability, but the power to invest his own funds and to attract essential capital from other sources.

To maintain that position my friend lives in a mansion far larger than would be required for his personal needs. He maintains motor cars and other facilities for taking care of an almost constant stream of business guests. Not long ago he showed me his accounts for these personal living expenses, which he cannot charge to the business. For the first eight months of 1935, these figures revealed, it had cost him over two-thirds of his annual salary to live.

At first thought it may appear that this man was merely living up to his salary, and most men who have been able to break even in that way during the past four years regard themselves as fortunate. But let's take another look at the figures. This man has other income, the yield of his private fortune, the accumulation of more than three decades of hard work. When this income and his salary are added

up by the Bureau of Internal Revenue, he finds himself in the 60 per cent income tax paying class.

It follows that instead of getting $50,000 a year in salary this man is actually taking home from his job $20,000 a year. To hold that job he is spending at the rate of $50,000, however, so that he finds himself in exactly the same position as the famous blackface team which learned it couldn't make any money thataway. If he threw up his job it would automatically drop him into a lower income tax bracket. There would be a considerable saving of tax payment. This might not be enough to compensate for the salary loss of $20,000 a year, but it would come so close to it that the difference would be of no material importance to him. And even that difference might be made up by a reduction of his living expenses.

> ***"On their face, securities represent an equity in such things as plants and machinery, or a guarantee of a certain return from the profits of these tools. Actually the investment is in a man or group of men —the management behind the machines."***

This man is sticking to his job because he likes it. He feels an obligation to his stockholders, and he quite frankly and honestly enjoys the game of making a business enterprise a success. He probably can be depended on to stick for some time, but there must be a limit to his endurance if the impairment of his capital continues. With taxes rising and unavoidably to be higher, the day will come when it will be cheaper for him to retire than to work, unless his compensation is brought into line with his ability to make employment for wage earners and profits for investors.

That day already has arrived for some men. Therein lies one explanation for the continuing refusal of business to borrow from the vast stores of credit now available sums comparable to the known requirements of industry, if industry is to fill the known needs of the consumer. Our banks are clogged with surplus funds because management is afraid to borrow for expansion. This is not altogether personal and selfish. Executives who fear for their private fortunes are responsible to their directors and stockholders.

The personal attack, however,—the movement to put a low maximum on salaries regardless of the earning capacity of the man,—is more insidious than many dubious things the New Deal is doing because so much of it is under cover, and in the dark. The publicity provisions of the S E C, requiring publication of salaries paid to executives of all corporations listed on the Stock Exchange, is only what appears on the surface. Beneath it is apparently a persistent campaign designed to stir up stockholders and employees, the effect of which is to harass executives whose every unit of energy is needed to bring in profits for the business.

We read all sorts of figures in pink or red publications showing how much of the total wealth of this country is owned by a small group of corporations. Curiously, it does not occur to the average man to ask *who in turn owns the corporations.* The figures of stock distribution are ignored, likewise the enormous sums paid out annually in wages to millions of workers by these corporations, plus the contributions they make to the cost of running the government by their tax payments.

What the investor should bear in mind is that with few exceptions, many of the men who are drawing these so-called high salaries are in a position to retire, if these choose. They get that pay because they can command it. I have never met a successful executive who didn't actually enjoy his job, but the men who will work for a pittance while others enjoy the fruits of their labor are few and far between. If such men are forced out we must expect to see industry falling into the hands of definitely low caliber men.

Management is all important. If it were not, every corporation might be making money—businesses would run themselves. That, also, was in the banker's mind. It traces back to our industrial experiences during the days of the world war. We had a wealth of material, plenty of man power. The physical end of the task we had to do was simple—on paper. The only acute shortage was of men capable of handling big jobs without being swamped by detail.

We are even more badly in need of such men today. There never has been a time in world history when the opportunity for them was so large and wide open. Our people need so many things that the business of supplying them would yield a tax revenue at fair rates capable of paying all the debts so far contracted by the government. This country is inordinately rich in natural resources, in production facilities and in markets. But when the government legislates against brains it is legislating against itself, against the investor, and against the wage earner.

The consumer, of course, will pay for all of this in the long run. The tragedy of the situation is that he is being told today the movement to reduce salaries, along with other restrictive legislation, is in his interest. Actually anything that curtails production and the free flow of natural recovery means a continuation of high Federal expenditures for direct and indirect relief. That in turn means higher prices, lower wages and higher taxes.

One of the saddest things about the New Deal philosophy and legislation is the fact that the New Dealers themselves —along with thousands of their followers—are apparently sincerely convinced that their various legal and sociological panaceas will actually bring about the results claimed for them. And yet, statistically, any schoolboy could demonstrate that the total amount by which large salaries might be reduced would, if divided among 125,000,000 people, amount to a pittance—and any experienced plant manager could explain how able management, given the incentive of a salary proportionate to results obtained, may increase sales and production volume, add to employment, and thus boost payrolls and relieve distress.

> ***"What the investor should bear in mind is that, with few exceptions, men who are paid in excess of say $25,000 a year are generally in a position to retire if they choose. They get that pay because they can command it. . . . If such men are forced out we must expect to see industry falling into the hands of definitely low caliber men."***

But the major danger of New Deal legislation lies in the degree of control put into the hands of bureaucrats, whose chief interest is not the welfare of any business or industry but how they can prolong their own job tenure. I do not think the industrial executives of this country will put up with that type of dictation very long. They may decide to go fishing instead.

Will Taxation Check Recovery?

New Taxes Become Effective in 1936-37—Continued Governmental Expenditures May Necessitate An Even Heavier Load

By John C. Cresswill

LAST year the people of the United States paid out to each other about $2,000,000,000 more than they produced. That is the way the economists figure it. But they don't include in income paid out the several billions of dollars spent by public and private relief agencies in direct relief. Taking them into account the people paid out, probably about $5,000,000,000 more than they made. This depletion of national capital was partly due to the fact that the national income produced was so low—about $30,000,000,000 less than 1929—and partly due to the direct and indirect charges of financing unemployment. With 10,000,000 workers unemployed, and so not producing income, the employed workers had to carry them in one way or another.

Aside from the present crisis there must be taken into account the effects of the ever-increasing proportion of the annual income resulting from economic processes which is diverted to public uses.

In 1860 Federal expenditures were only $2 per capita. In 1910 they were $7.50, in 1932 they were $32, now they are $63. State expenditures per capita in 1903 were $2.25, and those of local governments $11—a total of non-Federal expenditures of $13.25 per capita. At present total governmental expenditures have climbed to about $17,000,000,000, making the present public expenditures per capita more than $130 a year.

Taxes actually collected are now running at about $12,000,000,000 a year, or near $100 per capita, as against an annual national wealth production of about $47,000,000,000. In other words, it is actually taking about one-fourth of the annual production of wealth to pay for government.

While the President has promised that there shall be no increase of taxation hereafter, the last session of Congress added about $250,000,000 to the revenues through the soak-the-rich tax law. The total appropriations of the last session of Congress were the peace-time record (exceeded only in 1917 and 1918), $10,250,000,000, and the actual expenditures for the fiscal year, 1936, according to the President's recently-published revised estimates, will be about $7,500,000,000. This will be the third year in succession in which Federal expenditures have exceeded $7,000,000,000, and the sixth year in succession in which they have exceeded $4,000,000,000. This distressed and depressed country is now contributing considerably more per annum to Federal Government expenses than in 1929. The same is true of state and local expenditures.

Notwithstanding heavy taxes, the annual deficit of the Federal Government is running between $3,000,000,000 and $4,000,000,000 a year, and the public debt will soon aggregate $32,000,000,000—or about $16,000,000,000 more than it was in 1930, and $7,000,000,000 more than at the war-caused previous peak. The way things are going now, expenditures will have to be sharply reduced and revenues

will have to begin to mount up toward $7,000,000,000 a year—if the debt is not to be further increased.

"Rendering Unto Caesar"

An annual tax bill for Federal purposes of $7,000,000,000 is beyond bearing. Already, the tax burden on the corporations, which produce most of the annual wealth, is stupendous. In some instances the per-share taxes exceeds the per-share earnings. Even in the case of a corporation like the Chesapeake & Ohio, whose earnings have held up fairly well, the tax levy is almost a half of the share earnings. In the case of less fortunate corporations, such as the Santa Fe, taxes are ten or twelve times as great as per share earnings. At present the Government gets $1.79 from the Pennsylvania Railroad for each share of stock outstanding while shareholders themselves get a dividend of 50 cents.

Companies, tobacco for instance, which are the particular victims of Federal taxation, despite large earnings per share, as earnings go nowadays, are compelled to give to Caesar more than half. American Tobacco earns $4.47 and gives the tax collectors $2.27. Twenty representative industrials, utilities, railways and merchandising companies, lumped together, show earnings of $3.24 and taxes of $1.43 a share.

Or, take the oil industry. The taxes imposed on this one industry are stupendous and seriously threaten their main ally, the automobile, which is currently doing more to pull us out of the depression than any other single activity. Between 1919 and the present time, the average tax rate on gasoline has increased from nothing at all to nearly 5½ cents a gallon. That the public has submitted to such an impost with as good a grace as they have, is merely because gasoline prices have declined to an extent that more than offsets the tax. When the present plentiful supply of oil dwindles somewhat, the public is going to be acutely conscious of what it pays in gasoline taxes. Last year, the Federal Government took in some $170,000,000 in gasoline taxes, nearly $25,000,000 from lubricating oil and $10,000,000 from pipe lines. At the same time, state gasoline taxation brought in more than $565,000,000. All this, of course, is in addition to the taxes paid by the oil industry in the form of corporate taxation.

What Corporate Taxes Indirectly Cost the Stockholder

Taxes Paid by Leading Companies Reduced to Per Share of Common Stock

	1934 Earnings Per Share	1934 Taxes Paid Per Share
Allied Chemical & Dye	6.83	1.00
American Can	6.72	1.50
Amer. Tel. & Tel. (system)	5.96	4.83
American Tobacco	4.47	2.27
Armour & Co. (Ill.)	0.81	0.50
Atch., Topeka & Santa Fe	0.32	4.33
Chesapeake & Ohio	3.65	1.35
Chrysler Corp	2.19	0.42
Columbia Gas & Elec	0.25	0.73
Consolidated Gas, N. Y	2.18	3.53
Continental Can	4.02	0.81
Corn Products Refining	3.16	1.32
du Pont	3.66	0.43
Eastman Kodak	6.28	1.42
General Foods	2.12	0.88
Int'l Business Machine	9.38	1.32
Liggett & Myers	5.92	0.97
Montgomery Ward	1.72	0.44
National Biscuit	1.57	0.32
National Steel	2.80	0.54
Pacific Gas & Electric	1.52	0.37
J. C. Penney	6.29	1.00
Pennsylvania	1.43	1.79
Procter & Gamble	2.09	0.33
Public Service of N. J.	2.82	3.54
Standard Brands	1.06	0.17
Standard Oil Indiana	1.25	0.47
Standard Oil N. J.	1.76	1.72
Texas Corp	0.59	0.76
F. W. Woolworth	3.30	0.40

Considering the gasoline and oil taxes to be virtually a tax on the automobile, one would think that with this the latter was paying its full share. But other levies are laid on the automobile. Last year motorists paid $313,000,000 in state registration fees, an estimated $70,000,000 in personal property taxes, and $67,000,000 in Federal Excise taxes, not including the Federal gasoline tax. All in all, the motorist's 1934 bill totalled $1,200,000,000.

In the merchandising field, business has not only to bear the normal burden of extremely heavy taxation, but in many cases it is made the worse by being out-and-out discriminatory. The chain store taxes, starting at, say, $1 for one store and rising to $500 per store for chains with more than a certain number of stores is a penalization of the efficient and a subsidy for the inefficient. In Louisiana, there exists the most extreme form of this kind of taxation. The tax rises to $550 per store and is not figured on the number of stores operated in Louisiana but on the number of stores operated by the company anywhere.

Business as the Rescuer

Moreover, present imposts are only a small part of what the future has in store, even though there be no further levies, if present laws are fulfilled. The Social Security Act has implications that cause consternation. This act proposes to levy eventually a tax of 3 per cent on employees' pay income and 3 per cent on employers' payrolls. But that is not all, employers in the groups to which the social security levies apply will also have to pay a payroll excise tax of 3 per cent to finance unemployment compensation. For the first three years, beginning with 1937, the employer's tax will be only 1 per cent of his payroll. This tax will bear heavily on some kinds of business and lightly on others, according to the ratio of labor costs to income. In the cases of companies having a small margin of net profit, even the 1 per cent tax may more than wipe out the profit margin. What will be the effect when the old age levy reaches 3 per cent and the unemployment compensation tax reaches the same rate?

When the whole Social Security Act swings into full action the annual cost to employers, employees and all Federal taxpayers will total more than $8,000,000,000 which is about twice as much as the Federal Government has hitherto collected annually for all purposes from all revenue sources. And all of this amount, except the general taxes to meet the interest on the reserve funds, will come out of employers and employees in industries representing only a part of the national income.

There is the further business problem of whether employers will not really have also to meet their employees' nominal share through the forcing up of wages and salaries.

As the law is further studied the conclusion is being reached that Congress has issued an edict which can no more be enforced than King Canute's orders to the tides to stop their advance. The Social Security Act promises to become a capital levy, which must be profoundly amended or else will lead to socialization of industry. It is likely to prove incompatible with the capitalistic economy.

Another implication of heavier general taxation is seen in the uncertain fate of the processing taxes. At present they may be considered as devices for equalizing income be-

tween urban and rural groups. But already they have dwindled notoriously through noncompliance and may be eliminated entirely by the courts. That will throw the burden of farm benefits upon the whole taxpaying population, as a general tax of some sort.

Some Taxation Breath-Takers

Federal Expenditures, 1935, for Recovery and Relief	$3,654,000,000
Federal ordinary expenditures	3,721,000,000
Total all 1935 local community expenditures	6,900,000,000
Total all 1935 State expenditures	2,400,000,000
All public expenditures 1935	16,500,000,000
Total expenditures Fed. Govt., 1789 to 1913	24,521,000,000
Total appropriations, 1933-36 (Roosevelt)	30,000,000,000
America's World War costs (exclu. of loans)	26,250,000,000

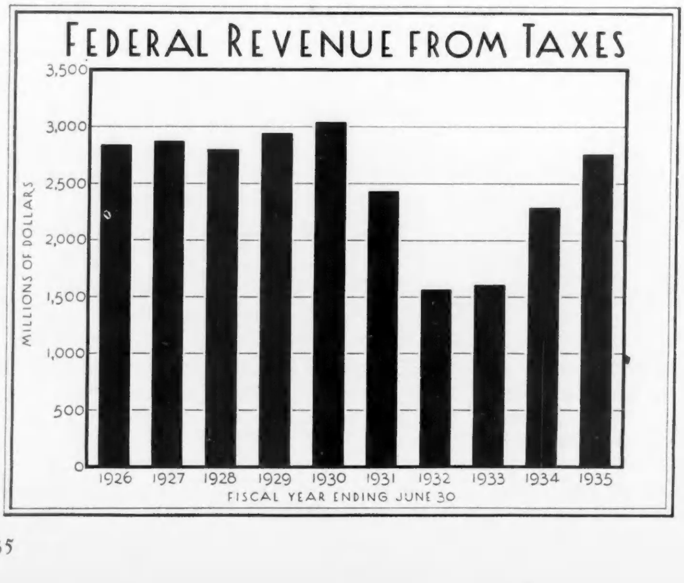
Then again, it is commonly accepted in Washington that the next session of Congress will provide for the cash payment of the soldiers' bonus, amounting to about $2,000,000,000. It will likely be financed by a bond issue, but even so the service of that amount of additional debt will have to be met from taxes.

Nevertheless, the President, realizing the gravity of the taxation problem, has promised that there shall be no higher levies and declares: "The prevailing rate of recovery points to the speedy decline of Federal expenditures for emergency activities."

No doubt the President is sincere and determined in this stand; it is only common sense that he should be. He knows that the national finances can not much longer stand this unprecedented strain unless business shall soon expand enormously. Heavy taxation on a falling volume of business, accentuates the fall. The greater the taxes collected one year, the less they will be the following year. Inflation of the currency then must swiftly follow, with the whole comedy of ruin resulting from the impossible attempt of the printing presses to overtake prices.

Nobody knows better than the President that the specter of unemployment is not to be dissipated within a few months or even a few years. The experience of England warns us that far advanced recovery still will be accompanied by persistence of unemployment. The hope of no further augmentation of taxation is just now more in the automatic expansion of revenues without increase of rates than in the reduction of expenditures. Some of the latter there will, and must, be but in the main the hope that business may find the burden of taxation bearable is in its prospect of being able to bear more than that it will be permitted to bear less.

The political factor is important, too. Presidents who face re-election campaigns against a background of business gloom confront defeat. The breathing spell vouchsafed last August will persist. Business will be encouraged to go ahead on its own in order to save the Government. In 1933 the Government saved business, in 1936 business will be manipulated to save Government. Oppressive as is the load of taxation, frightful as are the portents of profligate expenditures and omnivorous borrowing, the way to escape is indicated and chosen.



At the same time local and state taxation is being generally reduced or pointed toward reduction, whilst public economy is everywhere the motto save in current federal expenditures, where the vogue of happy, splashy boondoggling in the flood of W P A money begets a contempt for fiscal sums in terms less than millions.

The President makes no definite prediction of the time of a balanced budget but his private cabinet one and all declare that the fiscal year of 1938 will see the budget balanced around the $5,000,000,000 fulcrum.

Only in four years in our history—1919, 1920 and 1921—has the income side of the Federal budget (excluding postal revenues) exceeded $5,000,000,000—and never again did it rise perceptibly above $4,000,000,000 until this year. The revised budget for the current fiscal year chalks up $4,470,000,000 on the income side. Next year it is expected to exceed $5,000,000,000, while expenditures are expected to fall from the current $7,750,000,000 (revised) to $7,000,000,000.

As usual, the claim is made again that the budget is in balance outside of emergency expenditures, which in the President's words "are almost wholly on account of unemployment relief." But this statement is to be appraised by accounting methods—and what accountants can do to figures is well known but little understood.

For example, the Treasury statement at the end of the fiscal year 1935 gave the emergency expenditures as $3,654,000,000; the President's summation statement of September 29 gave them as $4,262,000,000. Per contra, the Treasury statement gave the 1935 ordinary expenditures as $3,113,000,000 and the Treasury statement put the ordinary expenditures at $3,721,000,000. Obviously, the President's statement, based on a rearrangement of accounting inaugurated this current fiscal year, makes a better foundation for forecasts of balanced budgets if and when the exceptional stress is no more.

In the long-time view, however, business must count on ever greater Federal expenditures. The social security legislation insures that, quite regardless of the general momentum of policy through all changes of administration for a greater and greater share of national income to diverted, by means of taxation, from private to public enjoyment.

There can be only one interpretation of such a trend. Ultimately, unless government expenditures are curtailed in a most drastic manner, the tax load on corporations will result in lower average profits in most industries. The sequence of that is, of course, smaller dividends, curtailed surpluses, less investment with a probable ultimate trend toward lower wage scales.

Happening in Washington

By E. K. T.

Business is going right along upwards in a very circumspect manner, according to the composite Washington view. The trend on exchanges is hailed with satisfaction. Security prices are regarded as the barometer of public confidence and optimism. The Department of Labor's report that there was a net gain in September of 350,000 in the employment fields tabbed by it is considered as proof that the unemployment ice is beginning to thaw again.

> *Government economists assert that the jam in the heavy industries is breaking, and reiterate that it must inevitably give way before the ever-increasing demand for consumption goods.*

Feared, though, that business recovery may go too fast. Corrective slump in spring of 1936 would not be timely in a political sense.

Washington Sees—

Business behaving correctly and promisingly.

Building boom to be staged next year—in the final defeat of the depression.

Italian adventure in Africa liquidated and with it all danger of general war.

Inflation—sure to come—but not too much.

General regret at fiasco of the "noble" work-relief enterprise, and fear of the afterclap, but does not ignore the business power of $4,000,000,000.

Disposition of Government to arrogate to itself all decisions as to what constitutes public interest.

A A A here to stay—and to hold the fort for the New Deal through any "counter-revolution."

Ultimate loss on large part of New Deal government "assets."

Republicans planning to convert favor for New Deal to disfavor for New Dealers.

Consensus of opinion here has swung toward the view that the Italian carbuncle will be medicated diplomatically, and that there will be no resort to major military surgery. After some smashing Italian victories in Ethiopia, it is expected that Emperor Selassie will agree to almost any deal that may be arranged by England, France and Italy and indorsed by the League of Nations.

The President is conducting a conversational questionnaire in the endeavor to learn why employment grows so slowly. He is getting two classes of answers. One group tells him rather bluntly that the people who have money are still afraid of business because they are afraid of his policies. Another group emphasizes the plenty-of-money remedy.

> *They agree that confidence is still lacking but they contend that it will take a little business spree to loosen it up. They haven't a formula for starting the relaxation of economic exhibitions but they insist that almost any day something will happen that will turn the great reservoirs of accumulated credit and cash roaring through the business power plants.*

Hoped, administratively speaking that building will acquire enough momentum by seasonal peak next May to offset any tendency toward reaction in other lines. Building continues to be the favored channel of governmental implementing of prosperity.

Real estate men applaud Government's interest in their field, but express fear that P W A and Resettlement Administration projects (Tugwell) will prove so popular that direct governmental housing will have to be greatly extended, thus restricting the field for private initiative.

Government building agencies say their objective is to confine public housing to income classes which can not normally afford decent shelter. Idea is another form of redistribution of income. Houses for the poor are to be provided at government's cost and loss—low rents, too low to capitalize into actual costs, and long-time amortization.

In higher-income zone, Government efforts will be to reduce initial charges and carrying costs to minimum, compatible with encouragement to investment and to private building enterprise. F H A cites its Washington project—248 apartments, 15,000 applicants. Foreseen, however, that increasing business activity in general will tend to offset artificial efforts to keep down interest.

So, what? Don't worry lest the Administration shall take some premature step to chill the exchanges. Remember that Eccles says that what this country needs is inflation, and he has just been appointed to the new Federal Reserve Board of Governors. It is simply impossible for recovery to go on without an expansion of credit, and you can call it what you will—inflation or reflation.

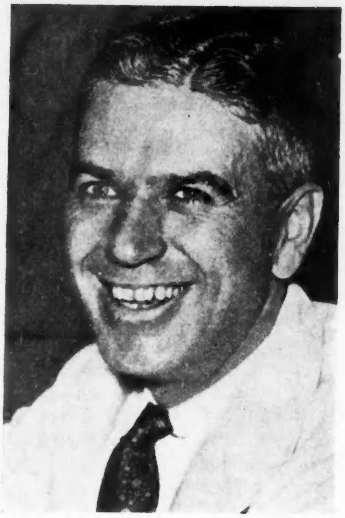
> *Genius is always a bit mad, and plethoric business is always a bit irrational. Hence it is optimistic—and daring. A couple of cocktails in the right place may incubate a business venture, and a good shot of business alcohol may any day start the inflation fireworks.*

Foreign money is coming to the U. S., according to the judgment of observers here, not only in flight from war and risk but because foreigners have come to the conclusion that inflation impends here—that is, credit inflation—and a boom in business and a further rise in the prices of securities and commodities. Mr. Morgenthau on his return from Europe said something that indicated that in his

judgment the Europeans were not dimming their reputation for hardheadedness in backing American securities with their canny cash. They have faith in American recovery—for the present anyway.

Zero hour for inflation to become dynamic is now put at the first of next year. Political necessities demand that there shall be boom in the air early next year—and that demand will help set off the detonator.

Some observers guess that the $2,00,000,000 bonus money, set for payment about March 1, will be the trigger that will explode the detonator. Drive will be made in Congress to pay the bonus out of the Treasury's profit from turning 100-cent dollars into 59-cent dollars.



Wide World Photo

REXFORD GUY TUGWELL

Thinks Government Will Have All Loans Repaid.

Moderate inflation is desired and must come, but Administration is studying what to do if it should cause prices to run away from production, thus reducing purchasing power, and repeating the N R A collapse.

The trick is to keep purchasing power abreast of prices until after election. Government has billions to strengthen purchasing power, but spending them adds to the upward pressure of prices, and the way they are being spent adds little to production. Watch prices!

Degeneration of the Work Relief program on its W P A side into little better than a more generous dole has retarded real employment and deprived it of all trace of real business priming. In many communities work-relief wages have become regular union wages, and the proportion of the funds that go into materials and equipment, and thus to secondary employment, is very small. Instead of being a temporary stopping place on the way from the dole to regular employment a work-relief job has become one with which the private employer can not compete, and the recipient of relief would be a fool to leave. Herein as in many other ways the thousand-faceted relief and recovery program destroys itself. This is not said in petty criticism.

Politicians and labor leaders have united to deprive the work-relief plan of a fair trial and have turned it into a device for demoralizing the unfortunate, checking business expansion and wasting public funds. There are observers in Washington who wish that the $4,000,000,000 had been largely applied to the direct subsidization of employment and production.

Acme Photo

HENRY MORGENTHAU

Says Europeans Have Faith in American Securities.

New Deal ultimatum: I had a ringside seat at a conference between an industrial group and the head of the corresponding governmental agency. The talk was good natured but it was gloveless and symptomatic of the New Deal attitude toward business. The industry representatives were contending that they were entitled to run their business in the manner necessary to make it profitable. The Government man agreed, provided they could do so and yet meet the social interest's requirements, as outlined by him. But what if that could not be done? The alternative was plainly indicated to be eventual nationalization. If this episode is to be taken as establishing a rule, the New Deal theory is that if a business can not be run according to what the Government holds is the social interest, it must be publicly administered.

It didn't seem to make any difference that the industrialists held that successful private administration would necessarily be in the public interest. They just didn't know. This view will probably not be much aired in public between now and the 1936 elections, but it indicates what is likely to be the general policy if the New Deal is indorsed.

Administration hopes that the Supreme Court will sustain the A A A processing taxes, although it is ready to step into the breach of an adverse decision with a general tax. It is explained that a processing tax creates two legislative "pressure groups" which tend to serve the public interest by their opposing interests, whereas under a general tax what is everybody's interest ends by becoming nobody's. Some people might interpret this to mean that the Government has at its command a dependable bloc in Congress so long as process taxes are in force.

Rex Tugwell is among those who believe that the Government is going to get back all of the variegated loans it has made through one agency or another in the last three years. So far as the R F C loans are concerned that is doubtless true in the rough, for Jessie Jones has run his place like a pawnshop. The billion dollars of F C A commissioner loans to distressed farmers will never be anywhere near realized upon. Between the reluctance of the debtors to repay what most of them regard as a rightful gift and the complaisance of Congress they will largely drag along toward virtual extinction. Their story will be the story of the Government's great irrigation projects, which set the West aflame a generation ago—payments deferred and deferred and today are being finally liquidated in a combination of R F C refinancing and Sec. 77 bankruptcy.

The Home Owners Loan Corporation can get away with a few hundred evictions a year but when it becomes necessary for that institution to throw out thousands of the families it saved from the private money lenders, giving new money for old and

(*Please turn to page 112*)

A Boom in Prices Underway

The Inflation Wolf Has Been Called So Many Times That Its Actual Arrival Is Going Almost Unnoticed

By Henry L. Blackburn

IT was in 1933, when Mr. Roosevelt, under the tutelage of of Professors Warren et al, first began tinkering with the gold content of the dollar that talk of inflation reached its greatest heights. But as nothing very terrible happened immediately, interest in the subject, although flaring sporadically, has tended on the whole to die down. If at the moment it happens to be attracting more attention than in some time, it is not because of any change in fundamental conditions, but is merely the result of certain recent happenings. Shortly these will be forgotten and then inflation will be a dead subject again until it attracts the public's attention by some other manifestation of its undoubted existence.

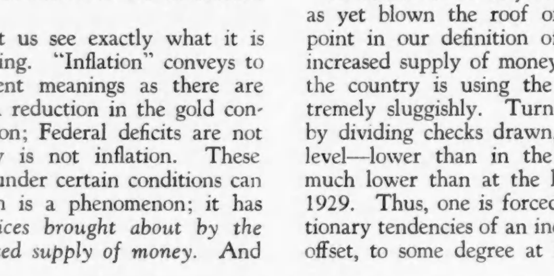
Before going any further let us see exactly what it is about which we have been talking. "Inflation" conveys to people almost as many different meanings as there are adults in the United States. A reduction in the gold content of the dollar is not inflation; Federal deficits are not inflation; even printing money is not inflation. These things are the dynamite which under certain conditions can bring about inflation. Inflation is a phenomenon; it has to do with prices—*soaring prices brought about by the public's utilization of an increased supply of money.* And the term money is used here in the sense to include credit money as well as currency.

An appraisal of the situation as it exists at the present time depends on the extent to which the conditions of this definition are being met In the first place, has there been an important increase in the monetary supply; in the second, is the public utilizing it; and in the third, are prices rising?

Many frequently overlook the fact that the dollar bills they carry around are the least important part of the country's money. The really important part of the monetary supply consists of bank deposits, for it is by checks on these deposits that 90 per cent of all business is settled. The rise in bank deposits since the bank holiday in the spring of 1933 has been truly remarkable. At that time, net demand deposits of Federal Reserve member banks in leading cities totalled less than ten billions of dollars; today they are in the neighborhood of sixteen billions of dollars. A compilation just published by the Federal Reserve Board shows that in the year ended September 25, last, the private demand deposits of these banks increased $2,189,000,000, or 21 per cent.

These are large figures: what do they mean? Perhaps their significance can best be brought out by stating that the deposits of these banks—bank money—is about *three billions of dollars greater than the* 1929 *average*. The thing is almost inconceivable.

A discussion of why this huge volume of money has not as yet blown the roof off leads straight into the second point in our definition of inflation—the utilization of an increased supply of money. The fact of the matter is that the country is using the increased supply of money extremely sluggishly. Turnover of bank deposits (measured by dividing checks drawn, by deposits) is at a record low level—lower than in the depths of depression and very much lower than at the height of the boom in 1928 and 1929. Thus, one is forced to the conclusion that the inflationary tendencies of an increased monetary supply are being offset, to some degree at least, by the lessened use that is being made of it. The extent to which inflation is being held in check by this factor can be gauged by an examination of prices. But before passing to the third point of the definition, let us pause a moment to show how the tremendous increase in bank deposits has been brought about.



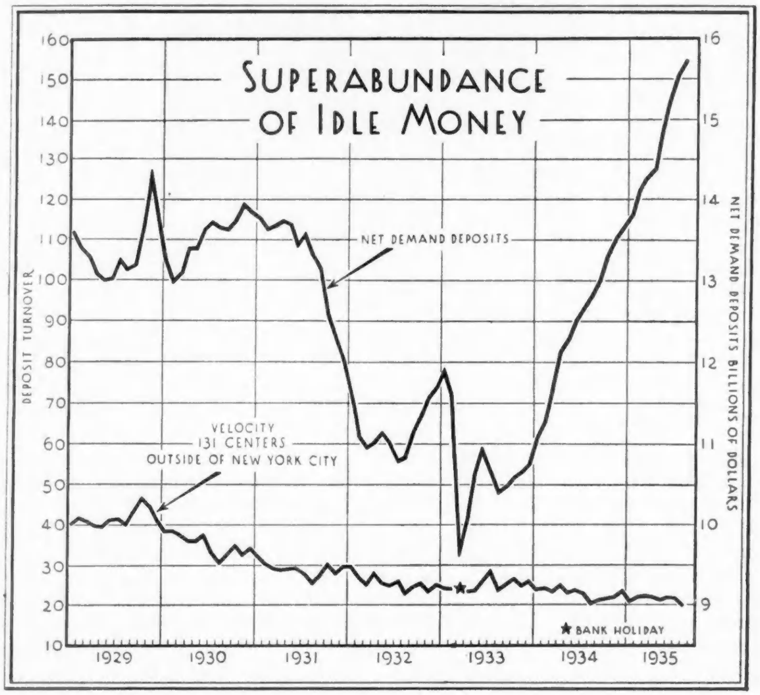
It is mainly the result of the Federal Government's deficit. The performance is achieved, as it were, by mirrors. Congress passes a law to save the farmers, build some one a house, a town a power plant, or what have you, and puts it up to the Treasury to raise the necessary money by borrowing. The Treasury advertises a bond issue which will be taken for the most part by the banks. The banks take these bonds, chalk them up on the asset side of their ledgers, and credit the Government with the proceeds. The

Government spends, or throws away, the proceeds *which drifts back to the banks again in the form of private deposits*—the country's money. In theory, there is almost no limit to this game and, in practice, none whatsoever. The great German post-war inflation was engineered in a similar manner and it was only in the very last stages that resort was had directly, instead of indirectly, to the printing presses.

Now for the third point of the inflation definition, prices. Prices currently, of course, are going up: no question about that. The United States Department of Labor commodity price index is at a new high since the rise started in the spring of 1933. Every housewife knows that her grocery bills are larger. Rents have firmed. Real estate generally is higher, especially in farming districts. There is a boom in the stock market of sufficient proportions as to cause the president of the New York Stock Exchange to stress "The inflammability of the material we are dealing with." Yes, there is not the slightest doubt as to the direction in which, for some time, prices have been headed.

Difficult to Fix the Time

The fact that prices are indeed headed forward is a clear sign of the weakening power of sluggish money turnover in the inflation equation. How much longer can it hope to hold within reasonable bounds the price upswing? No definite answer can be given to this question. It depends on so many things: there are certain brakes and the latest Banking Act added to their efficiency, but it is a question whether anything can be done, without causing a crash elsewhere, to discount rates, to reserve requirements, or by open market operations, that will hold the situation. Above all however, when, and how far, prices are to soar depends upon public psychology. If a large part of the public suddenly took it into their heads to spend the money that is lying to their credit in the banks of the country, no power on earth could check the resulting upturn in prices. On the other hand, if the public should continue, as it has been doing for some time, to let its deposits pile up in the banks without doing very much about it, then the flight of prices might be long delayed. No one knows what will cause the change in attitude, but it is to be remembered that a bill authorizing the payment of the soldiers' bonus is almost certain to be passed early next year and it is certainly doubtful how much of this kind of thing can be placed on top of what has been done already without supplying the detonator to the keg of powder on which we are all sitting.



That many thoughtful men are fearful of the potentialities is seen from the recent remarks of Lewis W. Douglas, once Director of the Budget, but who resigned when he found it impossible to direct one which was bent on going as far out of balance as ours. Mr. Douglas said: "It is interesting to note that of the Government obligations issued during the course of the last two years approximately 80 per cent has gone into commercial banks. It is equally interesting to note that the increase in bank deposits has almost exactly paralleled the increase in bank holdings of government obligations. . . . The creation of bank deposits by this method lays the foundation for a devastating credit inflation and subsequent intense depreciation of values when the bubble bursts, if, in fact, it does not lead sooner or later to wild currency inflation."

The Factor of Practical Politics

Even supposing that those in a position of power to do so tried right now to reverse the direction in which the country is going, it is doubtful that anything they might do within the realm of political practicality could prevent a further marked rise in prices. A wild runaway inflation could be avoided if vigorous steps were taken without delay, but not a rise in prices. To achieve the latter, taxes to which the country would never submit would have to be imposed and business recovery stopped in its tracks. On the other hand, it is interesting to note that if business is let alone to recover further such a development in itself will accelerate the trend towards rising prices. As business regains confidence through greater activity, higher prices, larger profits, it will seek to expand, to reach still more lofty heights. Today, it is the Government that is borrowing money and spending it; if, on top of this, we had corporations and individuals making the same reckless use of their credit the result is readily imagined.

To contend as some do that there is nothing dangerous in our present monetary condition because of our vast gold hoards, or that business recovery so far has taken a normal and to-be-desired course because physical production has outrun the rise in prices, is to contend that Humpty-Dumpty is "sitting pretty" just because he hasn't fallen off the wall yet. It is characteristic of inflations that they are actually beneficial in the initial stages. They *do* stimulate production. The average man *is* better off—for a time. It is only later that prices begin to outrun physical production and the average man discovers, despite a larger money income,

(Please turn to page 108)

Significant Foreign Events

By George Berkalew

Foreign Representative of The Magazine of Wall Street

American Sales to Italy

There is a natural anxiety on the part of the Administration in the United States over the growth of Italian purchases. It lies in the realization that strict insistence on American neutrality rights to trade freely with Italy could, and probably would, nullify all the economic pressure being brought by the League to stop the Italo-Ethiopian conflict. Figures for September made public by the Department of Commerce show considerable increase in American shipments to Italian territory. In that month 234 American automobiles went to Italian Africa, against 2 a year ago; nearly 62,000 barrels of crude oil to Italy, compared with none a year ago; steel and iron scrap 40,000 tons, against 21,000 tons; while cotton linters, copper and other materials showed similar increases. October figures are not yet available, but it is believed that further gains have been made.

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Wide World Photo.

Mackenzie King

Italy's Internal Position

Quite apart from the extremely important factor of American policy, it is difficult to foresee how the application of economic sanctions against Italy, however drastic they may be, will have the *immediate* effect desired. The reluctance of Germany, Switzerland, Austria, Hungary and Turkey to isolate Italy is a serious obstacle to any League program which may be enforced. The problem resolves itself into a single issue; how long Italy can purchase by credit or, as is now principally the case, by cash, her necessary supplies of raw material to continue the North African campaign.

The Bank of France is still officially pegging the lira in Paris, but Black Bourse quotations glaringly reveal the sad plight of the country's credit. The internal situation is also grave. Snap judgments of various journalists concerning the morale of the population are frequently misleading. Hysteria resulting from Fascist propaganda is quoted as reaching an intensity approaching a nationalistic orgy. The whole story has not been told. In the northern industrial areas, war-time discipline introduced has created widespread discontent; protests against working conditions are only partially suppressed by mutiny measures employed by fascist control. In Southern Italy, the anti-war sentiment has been sharpened by exhorbitant taxation. The unsuccessful effect of mass arrests to subdue opposition is already making itself obvious in the official statements of the Fascist government. Previously, Mussolini declared that sanctions would mean war. Now the Duce in an attempt to back down gracefully, refutes this former pronouncement and implies that Italy will not even leave the League unless such an action is forced upon her by more aggressive measures than economic discrimination.

* * *

Some Fundamental British Policies

Behind the welter of "peace offers", "sanctions revolts", compromise "solutions", "election squabbles" lies a genuine official policy. The Foreign Office and the Committee of Imperial Defense hold that the Abyssinian situation and evolving from that the Mediterranean situation are, so to speak, mere preliminary issues. It is considered in these quarters that Great Britain will inevitably be involved in European complications of the first magnitude. Behind all moves of the British government the general line includes support of Nazi Germany against the Soviet Union in the hope that German imperialism will veer eastwards rather than westwards. Longer-term calculations foresee that a German success against Russia will re-establish the Anglo-German rivalry which existed prior to 1914. Hence the importance of maintaining solidarity with France.

On the fringes of this central problem, British African policy is founded on one idea; an extension of the Italian empire in East Africa, provided that such an extension be considerably more than counterbalanced by a parallel increase of British power in the same area. Should this "ideal" prove unattainable, and it will certainly prove unattainable unless political disorders or financial insolvency prevent the attainment of Mussolini's ambition, the British government now in power would not stand in the way of armed duress against Italy.

The public utterances of Sir Samuel Hoare denouncing military sanctions may be interpreted as the requisite assurances prior to the November election. There can be little doubt that the national government will come out successfully, but the overwhelming majority formerly expected is now unlikely. Anti-war labor seats in Parliament will increase. In connection with the proposed armament loan, bankers argue, on the one hand, that such a move at this time would destroy the gilt-edged security market; other

financiers worry the government by insisting that an armament loan is an urgent necessity to forestall the impending collapse of the building boom, the foundation of the actual domestic prosperity. Hence, it is almost certain that no decisive steps will be taken either as regards British internal economy or British foreign policy until the reinstatement of the national government is assured.

Whatever the immediate future holds in store, it is admitted frankly in London circles that note circulation is advancing rapidly and the trend is decidedly toward a substantial inflation. Some predictions estimate that from 10 to 20 million pounds sterling of gold will have to be transferred in order to maintain the proper ratio. British authorities have heretofore been able to maintain note circulation at a low level, despite 40 per cent currency devaluation, due to the lag in general business activity in other parts of the world. With evidences of economic revival and the expansion of note circulation, the British currency system is now under considerable strain. This should cause a rise in the British internal price level and correspondingly reduce the discrepancy between it and other countries. This discrepancy has heretofore encouraged the British government to categorically turn down stabilization proposals. Unless note circulation can be considerably curtailed, it stands to reason that Great Britain will, after the elections, have no further advantages in remaining adamant on the stabilization issue.

* * *

France—450,000 G Men

In France, while no one apparently wishes to die for the Negus, political opinion is divided on national obligations. A decided swing to the Left gains rapidly in momentum and incites royalist fascist outbursts of protest. These groups more or less tenuously united, include the Jeunesse Patriotes, unofficially but authoritatively estimated 450,000 strong. Latest decree-laws suppressing mass demonstrations likely to endanger public safety are expected to enhance rather than diminish the virulence of Action Française invective. As the People's Front grows in power, antagonism against Italian Fascism grows proportionately. Herein lies the danger—a fall of the Laval regime, an ensuing shift of the relative power positions of opposing factions—the result possibly civil strife.

Wide World Photo.

Britain Parades Mediterranean Sea Power at Base of Gibraltar.

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Foreign Investment in American Securities

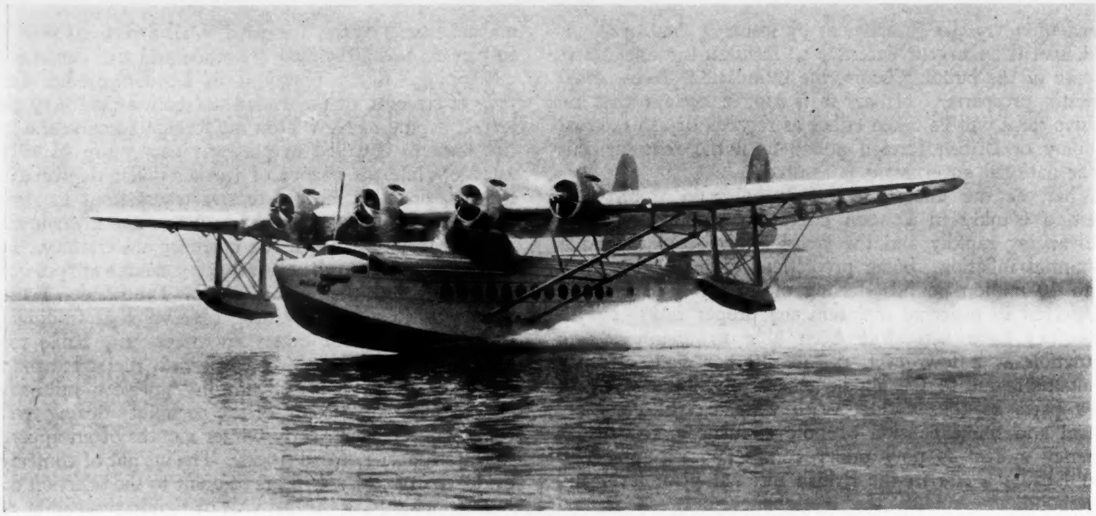
An increasing demand for American securities has been evident for some time on the part of British investors. This appeared first among investment trusts or joint stock companies, always the leaders in such movements. The trend toward Wall Street has now spread to private and individual investors, and this demand is still developing. Many observers in London predict that the present strength of the American market may very possibly attract capital to New York for foreign account at a volume not hitherto equalled in post-war days, even in 1928 and 1929. While the chance of further dollar depreciation has hitherto impeded more extensive transactions in American securities, via London, the recent war scare in some measure tends to counterbalance the currency uncertainty. London brokerage houses in the majority of instances are pre-occupied principally with the railroad group. The London Economist, with traditional conservatism, observes that trading conditions in the United States are notoriously liable to rapid change, but qualifies this remark with the statement that a policy of selective investment in American railroads may legitimately take account of the possibility during the forthcoming autumn and early winter months of an appreciation in the stronger railroad stocks. The weight of contemporary evidence in London appears to point to the selection of those lines which during the last year or two have steadily reduced arrears in maintenance charges accrued during the depression period.

* * *

Canadian Recovery Overshadows New Deal Results

According to the statement of the Royal Bank of Canada, the economic position of the country shows a marked improvement, particularly as compared with the United States. For the first six months of 1935, total Canadian production was slightly above the 1926 level; in the United States 20 per cent under. Using the same year as a base, copper exports increased by 300 per cent, zinc 250 per cent. The United States production of these metals is still well below the 1926 figures. Similarly, coal and electric power production shows improvement far exceeding our own. Foreign trade has declined in both countries, but the decline has been more pronounced according to the latest Department of Commerce statistics in the United States than in Canada.

A decisive general election giving a record victory for the Liberal party under Mackenzie King, swept away the market hesitancy which previously existed and the clarification of political uncertainty should result in a general revival of business activity. Although the current position of the Canadian Pacific system still remains partially obscure, alcohol issues, agricultural machinery shares, International Nickel and Ford of Canada reflect the improvement in local conditions. Many authorities confidently predict that Dominion industry and trade will make further important gains.



Sikorsky "Clipper Ship" Designed for Trans-Pacific Travel

Making Wings for the World

United Aircraft in Top Position as Manufacturer of Aeronautical Equipment

By WILLIAM A. MCGARRY

WHAT happened to the motor industry back in 1906 when Henry Ford "lost his head" and killed half a dozen profit making models to gamble everything on the untried and gawky looking "T" may be taking place in American aviation. Function differs as the motor of the plane differs from that of the gasoline buggy, but the fundamental economic set up is the same. Factors of finality are beginning to emerge.

In a year when the lightning calculators had proved to their own satisfaction that ten thousand cars a year was the national saturation point, Ford alone sold nine thousand of all models. When he ditched the whole business to concentrate on T, committees were formed to have his head examined. Later he sold fifteen million cars, making as many as ten thousand in a single day.

Recognition of Standing

United Aircraft Corp., claiming the best technical air staff in the world, got three enginering awards last year. The Collier Trophy went to Frank W. Caldwell for Hamilton Standard's controllable pitch propellor. The Manley Memorial Medal and the Wright Brothers Medal were won by three United technicians—Rex B. Beisel of Chance Vought, F. M. Thomas of the parent company, and A. L. MacClain of the Pratt & Whitney Aircraft Co. They wrote a paper telling how air cooling by cowling had been developed from guesswork to certainty.

More recently the company has been consolidating its edge on its competitors. Pratt & Whitney motors hauled the navy's huge, twelve-ton flying boat on its record breaking 3,387 mile non-stop flight from the Panama Canal to Alameda, Calif. The Sikorsky Clipper broke ten records in tests before Pan American Airways put it into service as the trail blazer of the Pacific. At a price reported to have been half a million dollars, the British Aircraft Development Corp. bought a license to manufacture the Clipper in England.

A two row radial engine developed after six years by Pratt & Whitney is said to be the most efficient airplane power unit ever built. What is still in the laboratory at Hartford may prove to be even more sensational as news, particularly in the field of stratospheric flying. The point of interest to the investor is that both the economics and the engineering of heavier than air flight are beginning to follow definite lines.

It's Up to Uncle Sam

Operators know now what they need to make a profit. The manufacturers have shown they can build it. Uncle Sam is the only "if". Both operators and manufacturers are dependent on him now for the margin between red and black ink which will hold up or expedite the industry. Air travel has almost doubled in the last year. It would be well over double if the transport companies had the seats. Nearly every flight today is oversold, but a great deal remains to be ironed out with the government concerning

contracts under the new laws before capital can proceed with certainty.

Not so many years ago it was thought the development of flying would follow that of motoring, with profits being made out of volume sales. That idea had been pretty well exploded on the inside when the original United Aircraft and Transport Corporation was put together. Outsiders didn't know it, however, and the speculators didn't care, The stock hit an all time high of 162 in May of 1929. It fell off 131 points to 31 by November 13 of that year. The record low was six and a half in 1932 and the 1933 range was from 46⅞ to 16½.

Division of the original company into three units was started early in 1934, in accordance with the new air act separating builders and operators. United Air Lines Transport Corp. took over Boeing Air Transport, Inc., Pacific Air Transport, Varney Air Lines, Inc., United Airports Co. of California, Ltd., United Air Lines, and 99 per cent of National Air Transport, Inc.

Boeing Airplane company became the western manufacturing unit, taking over the old Boeing Co. and the Stearman Aircraft Co.

In the Manufacturing End Only

United Aircraft Corp. also now confines itself solely to manufacture of planes, engines, and parts. With an authorized share capital of 2,400,000 shares of $5 par value, it took over: Chance Vought Corp., Hamilton Standard Propellor Co., Northrop Aircraft Corp., the Pratt & Whitney Aircraft Co., United Aircraft Exports, Inc., the United Airports of Connecticut, Inc., and 99 per cent of the Sikorsky Aviation Corp. The first annual report dated December 31, 1934, covered operations for four months. It showed a consolidated net loss for that period of $27,026.72.

The picture since then has changed notably for the better, despite continuing uncertainties at Washington. Unfilled orders on hand December 1, last, amounted to $7,533,661.86. The company today has orders for $15,000,000 worth of its products. Its last report—for the six months ended June 30, 1935—showed a net profit of $253,430, amounting to 12 cents a share. Sales and operating income for the period were reported at $5,181,908.

It was stated by Donald L. Brown, president of United Aircraft, in his annual report that the established practice of the equipment companies is to manufacture only on actual order or on indicated requirements for service parts. The total of fifteen million of orders on hand is therefore only an indication of what may be ahead. The cycle of the air industry is roughly two years. Sensational improvements have been made in the past two years, but they have not yet been fully reflected in production. Demand is now developing.

Balance Sheet Items of United Aircraft Corporation

Assets

Cash and Marketable Securities	$2,785,570	
Accounts Receivable	1,336,638	
Inventories	3,010,946	
Current Assets		$7,133,154
Investments		1,166,861
Property and Equipment, less Depreciation		7,244,840
Deferred Charges		58,891
Total Assets		$15,603,746

Liabilities

Current Liabilities	$563,570
Provision for Federal Income Tax	118,837
Advances, Deferred Income and Reserves, for Contingencies	365,209
Minority Interest	68,517
Capital Stock and Surplus*	14,487,613
	$15,603,746

* Capital stock issued and outstanding 1,769,609 shares $5 Par Value.

Operators admit that virtually all transport flying equipment now in service must be replaced within the next eighteen months or thereabouts. That part of it which has not become obsolete will be worn out in that time. United is in a position to make money even if it does not sell any complete planes. It makes about ninety per cent of the propellors used by the industry. Every line except those formerly associated with Curtiss uses Pratt & Whitney power plants. The phenomenal success of the Sikorsky makes sales there certain. Chance Vought won an open competition last year for an advanced design of scout bomber plane for the United States Navy.

In August last, the company announced the appointment of Dr. Jerome C. Hunsaker, head of the aeronautical and mechanical engineering departments of Massachusetts Institute of Technology, as technical adviser. He was formerly vice-president of the Goodyear Zeppelin Corp. He served also on the Federal Aviation Committee of which Clark Howell, Atlanta publisher, was chairman. Prior to that he was in the Navy, being the first office appointed to the Bureau of Aeronautics when it was created. Dr. Hunsaker was in charge of the design of all naval aircraft during the world war.

In a letter to Senator Gerald P. Nye, chairman of the committee which investigated air mail contracts, Mr. Brown wrote that "the military engine of today is the commercial engine of tomorrow." He has pointed out also that airplane engines are being sold to the United States Government at prices $3,000 to $5,000 less than power plants of equivalent horsepower cost the governments of Britain, France and Italy. He and other leaders of the industry have been campaigning quietly for a system of negotiated contracts to replace competitive bidding.

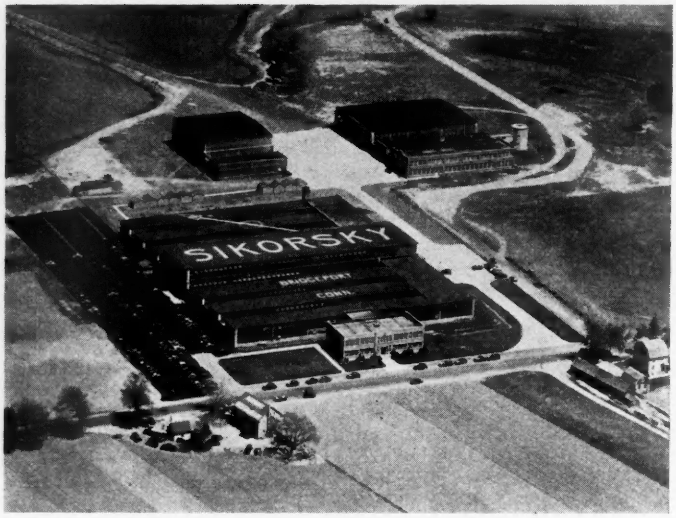
Better Prices Needed

The argument in favor of negotiation is that the war strength of a nation in the air is not measured by the number of planes. The real basis of fighting power is in reserve capacity. Better prices from the Government to the equipment companies are essential, not only to the manufacturers but also to the transport companies, since this is the first source of research and development funds. It is said that most of the technicians in both the army and the navy are in agreement with the manufacturers on this point. Hunsaker therefore must be counted as a distinct asset to United Aircraft by reason of his former navy connection and his intimate knowledge of the Government point of view.

In the past few years United's foreign business has amounted to about 20 per cent of the gross as compared with 40 per cent for Curtis Wright. The export business as a whole has not been helped by the investigation of war munitions and war material buying, yet here again

United's position is advantageous. The sale of the license rights to the Clipper is an indication of how far it is ahead of foreign competition. Its export subsidiary—now reorganized as United Aircraft Exports Corp.—has been doing well despite tariff and other barriers.

The propellor and engine divisions have had the most favorable operating records to date and they are likely to continue in the lead for some time. A general idea of their importance to the industry as a whole may be gleaned from the fact that even before the breakup of the original company the Senate committee found that 90 per cent of its sales had been made to other than subsidiaries. Improvements on the variable pitch propellor plus the perfection of the twin row motor appear to be opening the door to profitable operation of larger planes. The stratosphere experiments are extremely important in this connection.



United's Sikorsky Plant near Bridgeport, Conn.

Power and propellor are now available to fly close to 40 thousand feet. Not only that, but transport planes have been flown above 30 thousand feet at constant engine speeds. The new Pratt & Whitney gearing makes it possible to operate at different air speeds while the engine is turning over at its most economic rate. Even in a power dive the governors altering the pitch of the propellors keep the engine speed constant.

Some neat problems remain to be solved in the upper air. One pilot who got up over 40 thousand feet not long ago into a temperature 80 degrees below zero found that the contraction made it impossible for him to operate his controls. The wires were so taut that he had to keep flying until he ran out of gas. When he landed his eyeballs were frozen. The metallurgists are at work on this problem of metal contraction, the chemists and engineers on air problems. At great heights, for example, it is necessary to have glass two inches thick to resist the internal pressure necessary for breathing. Pilots cannot see through glass of that thickness.

An initial ambition of nearly all airplane builders was size and carrying capacity. When the idea began to spread that everybody might have his own plane there was a sharp turn toward smaller units. The hundred passenger ship was so widely denounced as uneconomic that when Sikorsky began experimenting with his clipper he was laughed at in many circles. Since then, however, mathematics has forced the conclusion that if transport is to pay it must be by larger carrying capacity. The clipper has pointed the way. It isn't nearly as big as it is going to be within the next year or two.

Cost of hauling passengers in a ten seat modern plane is about five cents a mile each. Cost of operation is around six cents. The transport companies must depend on Uncle Sam now for the difference. Obviously, when standard equipment provides for 25 passengers the overhead will come down. That could be provided now if the transport companies were in position to order in quantity. Since they cannot, development costs must go into a relatively small number of ships, which pushes up the price. But of such business as there is, United Aircraft is assured of a large share. In addition, there is the broadening demand for aeronautical equipment arising from the threats of war or the keen competition for the most modern weapons of defense which has seized upon most of the nations of the world. In such a setting it would be easy for the Government to get popular support for an extensive program of aerial expansion. Indeed many students of what is going on at Washington believe it is possible that the Administration might completely reverse itself and throw its wholehearted support into rebuilding the aviation industry.

In that event of course even the eventual huge commercial market would be overshadowed. Military planes do not last as long as commercial ships, for the obvious reason that they are subjected to an entirely different and harder kind of service. They are also more experimental, being called on to do things which have not been done before.

As an indication of what is expected of military planes it may be noted that with all Army engine orders 100 per cent replacement parts are specified. The navy specifies 50 per cent replacement. When a corporation receives an order for 100 engines, therefore, it can multiply by two or one and a half.

Too large a percentage of productive capacity going into military construction might delay for a time the development of larger commercial ships. In event that this does not happen, however, many of those in the industry expect to see large increases in output. The history of the motor car shows that a doubling of business in one year was not large when something like economic finality developed.

That was the five-passenger car. It is the 25-passenger aeroplane. Though no one now expects to see a plane on every house top, there is no doubt that once the profits begin to roll in from operation mass production methods will be applied in this industry as it was in the motor car field. United Aircraft is geared to go ahead on that basis now, though air motors are built to closer tolerance than automotive power plants.

Capably managed by men long schooled in aviation as well as in manufacture, the company has made rapid strides in overtaking the heretofore technical leadership which had been established by Curtis Wright. Strong in cash, with assets which total over 15 million, the future of the company seems well assured. While no estimate of ultimate earning power is possible on the brief showing since the split-up of the old United Aircraft, the outlook is favorable. The common stock, while admittedly a speculation, at current levels around 20 offers one of the best stakes in the future of a growing industry.

Profit Opportunities in Convertibles

Selected Preferred Stocks and Bonds With Conversion Privileges Which Are Becoming Attractive

By Stanley Devlin

THE inclusion of a convertible feature in bonds and preferred shares provides a means of extending to holders the potential privilege of sharing in the profits of the issuing company, an advantage not normally enjoyed by either bond or preferred stockholders. Throughout the depression and in the early stages of business recovery convertible privileges, for the most part, were almost entirely theoretical and their value nil. Convertible securities were valued strictly on their own merit and, generally speaking, were acquired by investors without consideration to such possibilities as might some day attach to the convertible feature.

During the past year or more, however, business recovery has proceeded to a point where not only has earnings improvement in individual companies added many dollars to common stock values but the value of convertible privileges has been materially enhanced. Moreover, the promise of further improvement has led to the increasing use of the convertible feature as an added investment inducement in new issues. Among seasoned as well as new convertible issues are to be found a number of interesting investment opportunities.

Common stocks, together with speculative bonds and preferred stocks, of course promise the greatest speculative returns in a period of business recovery but there are many investors whose circumstances and requirements preclude the purchase of such issues. To them convertible bonds and preferred stocks offer a means of sharing the speculative opportunities of equity owners, while still retaining a considerable measure investment protection and a fixed income return. While it is true that when a convertible privilege becomes valuable, the convertible issue is subject to wider fluctuations, its senior position and normal investment status would serve to cushion any sudden and drastic reaction in common stock values.

The extent to which convertible privileges have been enhanced by the current rise in common stock values is well exemplified by the American Rolling Mill 4¼ per cent convertible debentures of 1945. These bonds were issued at par in the amount of $25,000,000 early last June. Holders were given the privilege of converting into common stock of the company at $25 a share, on or before November 1, 1944. At the time the debentures were issued the stock was quoted around 18-20. In Septem-

(Please turn to page 108)

A Selected List of Favorably Situated Convertibles

BONDS

Issue	Recent Price	Call Price	Recent Price of Common	COMMENTS
American Rolling Mill Deb. 4¼s, 1945	119	102½	29	Convertible into common at $25 a share up to Nov. 1, 1944. Earnings have shown marked improvement and prospects favorable.
Beneficial Industrial Loan Deb. 6s, 1946	112	110	19	Convertible into common at $20 a share until Mar. 1, 1936, and at $25 for the next 5 years. Common earned $1.60 vs. $1.45 in first 9 mos. this year.
Chesapeake Corp. Deb. 5s, 1947	106½	100	45(a)	The 5s 1947 convertible into Chesapeake & Ohio Rwy. common at $43.97 a share and 5s, 1944 at $50 a share. Sound bond having good longer term appreciation possibilities.
Deb. 5s, 1944	107½	105	45(a)	
Kresge Foundation 4% Notes, 1945	108	103½ '37	27(b)	Convertible into 33 shares S. S. Kresge common until June 30, 1937; decreasing 2 shares every other year thereafter.
Pure Oil Co. 4¼% Notes, 1950	100¾	105	12	Non-detachable warrants entitle holders to purchase 30 shares of common at $15 a share to July 1, 1938. Price increase $2.50 a share every 3 years thereafter to maturity. Current earnings substantially better.
Republic Steel Deb. 4½s, 1950	109½	105	18	Convertible into 45 shares common to Sept. 1, 1937; 40 shares thereafter until Sept. 1, 1939; 35 shares to Sept. 1, 1942; 30 shares to Sept. 1, 1945 and 25 shares thereafter.

PREFERRED STOCKS

Issue	Recent Price	Call Price	Recent Price of Common	COMMENTS
Commercial Credit 5½% Pfd.	111	110(e)	50	Convertible into common at $55 per share of common. Record-breaking earnings suggest possible increase in common dividend.
Commercial Investment Trust 4¼% Pfd.	101	115(c)	61	Convertible into 1¼ shares of common. Earnings at new high level and prospects continue reasonably favorable.
Paramount Pictures 6% 1st Pfd.	81	100	9½	First preferred convertible into 6 shares of common, while 10 shares of second preferred may be converted into 9 shares of common. Divs. cumulative from Jan. 1, 1935. Both issues attractive for potential income and profit.
6% 2nd Pfd. ($10 Par)	11½	10	9½	

(a) Chesapeake & Ohio Rwy. common. (b) S. S. Kresge common. (c) After 7-1-37 and to 7-1-40. (e) To 6-1-38, thereafter at 105.

For Profit

Electric Power Possibilities

The Government's alphabetical Rural Electrification Administration presents a few facts which emphasize the extraordinary possibilities for the future growth of the electric power and appliance industries. There are, for instance, some 33,000,000 persons living on farms, of whom 73% are compelled to carry water from wells or other sources of supply; 76% light their homes with kerosene or gasoline, and some 10% use candles; 33% heat their homes with fireplaces and 54% with stoves; and 48% do their laundry work outdoors. In other words, a made to order body of consumers. All that remains is for President Roosevelt to monetize corn cobs.

* * *

Two Utility Preferreds

As a matter of fact, it doesn't look as if the Government would have to monetize corn cobs or anything else for the power demand to move steadily forward. Electric output establishes new high records weekly and this is at last being reflected in earnings statements. Not that the utilities are enjoying undue prosperity, for this is decidedly not the case. What has happened is that the rising demand for power in some instances has begun to, and in other instances actually has, offset increased costs of material and wages, lower rates, and political impediments. From this point on, the utilities ought to reflect the recovery more and more in actual earnings and this, of course, in turn will be reflected in the stock market. While it is probable that the greatest appreciation will be found in utility common stocks, participation in greater safety will be obtained in senior issues. Public Service Corp. of New Jersey $5 preferred which can be bought today to yield more than 5%, and the somewhat lower caliber 6% and 7% preferreds of West Penn Electric are among the issues expected to do well.

* * *

Stock Market Profits and Income Taxes

The old cry that rich men cannot afford to sell has been revived in this market, and it has merit. It explains, too, why so many of the good stocks have had such remarkable gains without intense manipulative effort. Not only are income taxes inordinately high, but the rich man today would be confronted with the vexing problem of what to do with his money if he disposed of his stockholdings. So he prefers to go along with the tide in something he knows a lot about. It has been demonstrated many times, though, that rich men *can* and *will* sell, regardless of taxes, when a change in the economic outlook suggests the conservation of capital.

Underwood Photo

Silver Production Is Up 138%

* * *

Budd Mfg. prospects and its 1935 earning performance indicate that sound values are being built behind the preferred stock and that next year may witness dividend action on the preferred.

* * *

Will Woolworth Raise its Price Range Again?

It was in 1878 that Frank Woolworth first hit upon the "5 & 10" idea. From it he made many millions and built up a huge business which for years grew on this one fundamental principle. In 1932, however, Woolworth stores began selling merchandise at 15 and 20 cents. The experiment was successful. Now it seems that competition from other chains and from bargain basements in department stores has brought about a condition which Woolworth hopes to solve by raising its price limit to 40 cents. The stock market reaction to this announcement was unfavorable; indeed, Woolworth has been a sluggish stock for some time. From the longer range standpoint, it is felt that the chain has seen its period of greatest expansion in this country, at least. There are, of course, still possibilities abroad and British Woolworth seems now to be going ahead faster than its parent.

* * *

Talk to the effect that the manufacturers of automobiles have looked with jealous eyes on the remarkable gains in earnings shown by the makers of parts and that new contracts are going to leave the latter with pretty slim margins.

* * *

The First European Registrant

The Argentine was the first country to apply to the S E C for permanent registration of its obligations on the New York Stock Exchange. Now Denmark has followed, making this the second country and the first European country to file more or less intimate details of its finances that investors in its obligations may be better informed. When S E C first issued its regulations on foreign government bonds, fears were expressed that general non-compliance would result in wholesale delistings, with consequent loss to the American holders. The Argentine and Denmark, however, have established a precedent and a number of other countries are expected to follow their example prior to the deadline of March 31, 1936. It was wise of S E C to make it plain that it would require no information from foreign countries that was not disclosed at home.

* * *

When Atlas Corp. et al took over Radio Corp.'s holdings of R-K-O they must have felt reasonably certain that they could do something with that unfortunate amusement company. Question: Why then did not Radio Corp.'s management feel the same way and hang on to their R-K-O?

* * *

American Silver output in September was 138% above that of the same month year ago. And listen: it was

and Income

worth all of $2,700,000—even when valued at the artificially high level of 77.57 cents an ounce. The American silver policy defined—a perfect example of pretty small potatoes (our own production), costing a whale of a lot of money (our huge purchases of the other fellow's holdings).

* * *

From Whence New Leadership?

Accepting recent tape performance at its face value, there are three groups that could easily supply the market with fresh leadership. These are, in the order mentioned, the tobaccos, the utilities and the oils. The tobacco companies have unquestionably turned the corner, and should enjoy a large holiday business. As to the utilities, there are doubtless many sound values among the operating companies at going prices. No one can know for certain, of course, what the attitude of the courts will be toward Federal regulation of the utilities; but aside from that, the better companies from now on should at least hold their own under adverse conditions, with chances favoring the transfer of some portion of increasing gross to net. While the season of the year is hardly propitious for sustained bull speculation in the oils, they have the advantage at least of a seemingly stronger price structure.

* * *

Reason for the persistently unsatisfactory action of Commercial Solvents may logically lie, at least partly, in the fact that butanol lacquers for automobile finishes are giving ground to new glyptol resins.

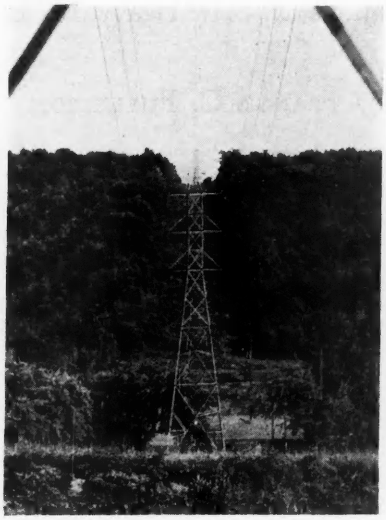
* * *

Philip Morris, moving into record high territory, is expected to earn close to $5 a share this year.

* * *

The Smaller Auto Companies

With 1936 holding every promise of being a big motor year, speculation in the shares of companies constituting the "outer fringe" can be expected to increase. The search for a leader of this group, likely to follow the pace set by the Big Three, will be hazardous. Perhaps more hazardous than ever be-



Nesmith Photo

Millions Still Without Electricity

fore. Because in the motor industry there is more than the problem of attractive models. Cars must be sold to the public, and that involves smoothly functioning distributing organizations. And not a few dealer organizations have been literally shot to pieces by the depression. Their rebuilding will be no easy matter. Tentatively, Nash and Hudson among the low priced shares would seem to be the more likely prospects for major price enhancement next year.

* * *

With the Denver & Rio Grande following the New Haven in petitioning reorganization under Section 77 of the Bankruptcy Act, it will not take much more of this kind of thing before half the railroad mileage of the country is in the hands of the courts.

* * *

Junior Railroad Bonds

While it is difficult to find a reason for more than lukewarm bullishness on the railroad stocks generally, there would seem to be ample justification for the improvement recently in the junior bonds of some of the defaulting carriers. This applies to roads that are not involved with outside entanglements and "investments," like the New Haven. With car-loadings 15% greater than a year ago, and with further gains promised, the position of many of these junior bonds in reorganization will be vastly stronger than appeared possible only a few months ago.

* * *

Copper: Too High?

Copper people are not especially enthusiastic over the shares of the producing companies at these prices—except as a possible hedge against inflation. Consuming interests have bought a lot of copper, and supplies on hand do not suggest higher prices for the metal. To the contrary, some shading would occasion no surprise.

* * *

The fact that some banks have raised call money from 1/4% to 3/4% does not signify any fundamental hardening in money rates; it is merely the bankers' way of trying to get a "living wage" for *their* commodity, just as the Guffey Coal Act is trying to do the same for miners and the corn-hog program for farmers.

* * *

Voting a dividend of 50 cents a share, Collins & Aikman is to make the first distribution in almost eight years. It is again the automobile industry that must be thanked, for the company is estimated to supply that industry with as much as 75% of its upholstering fabrics.

* * *

Tips from Washington

It is a reminder of the "good old days" when a high administration official turns tipster. No one would accuse Secretary Morgenthau of being so naive that he did not expect a speculative response to his statement that Europeans are buying our stocks because they think "this is the best place to invest their money." Or could it be—perish the thought!—that there is a subtle movement under way to subsidize the good will of the money changers, along with the hog farmers?

* * *

Still Manipulation

It cannot be said that all forms of strong-arm manipulative effort have disappeared. It is surprising how little comment has resulted from the use of the 400-share device by certain oper-

(Please turn to page 112)

The Investor Appraises Public Service

Rising Income from Electric and Gas Operations Offset by Heavy Tax Load

By Francis C. Fullerton

THE common stock of the Public Service Corp. of New Jersey reached its zenith in the gay year 1929 at 137¾. This year it sold as low as 20⅜ and currently is quoted around 44.

On the other hand, the 5%, 6%, 7% and 8% preferred stocks of this corporation command a market rating today comparable to that of 1929.

Which of the above security appraisals reflects the fundamental position of this utility, the change in it that has occurred since 1929 or the variation that has developed in the confidence with which investors regard it? The answer is that neither can be taken at face value.

True, the earnings behind the common have deteriorated steadily since 1929, reaching a new low since that year at $2.63 per share for the twelve months ended September 30. But this figure nevertheless is higher than the earnings averaged for the five years 1924-1928 and is only a trifle less than average net for the six years 1924-1929, the two periods having shown averages, respectively, of $2.44 and $2.72.

In short, there was nothing whatever in the rate of growth in the earning power of Public Service in those boom years to justify a price of 137¾ for the common or anything near that level. The appraisal was a reflection of speculation run wild and did not remotely reflect the true position of the equity.

The preferred stocks, as would be expected, much more closely reflect that position—but the fact that they sell at prices comparable to those of 1929 nevertheless is also misleading, for 1929 was a year of abnormally high money rates, whereas today interest rates are scraping an all time low. Thus, in the present money market these issues would command higher quotations if there had been no deterioration in the position and prospect of the enterprise.

How serious is that deterioration? Is it permanent? What does it mean to the 88,525 shareholders owning the common or preferred issues or to prospective buyers of these stocks?

As with any utility under present conditions, the answers are to be found partly in the general sphere of politics and government and partly in the sphere of economics. As to both, the position of Public Service may be said to be fairly strong but not impregnable—no more so than the position of any enterprise subject to public regulation is impregnable.

Although a holding company, the properties of Public Service are contiguous and lie within the state of New Jersey exclusively. Hence it clearly is not one of the systems aimed at by the Wheeler-Rayburn law now being administered by the S E C and has little to fear in this particular political direction.

Thus far it has not been harmed by P W A's sponsorship and financing of municipal power projects, such a project threatened not long ago in the City of Camden having been abandoned.

It is, of course, subject to the regulation of the Public Service Commission of the State of New Jersey, which last April ordered it to make electric rate cuts amounting to $5,176,566 on top of reductions of around $9,000,000 made since 1929. Previously there had existed something in the nature of a tacit "gentlemen's agreement" between the company and the commission in which the company's substantial losses in operating its extensive trolley and bus lines on a 5-cent fare had been taken into consideration in the making of electric rates.

At a time when the Roosevelt Administration is the spearhead of a generally accelerated attack on the utility industry and its rates—closely seconded by Mayor LaGuardia in New York City and by similar political utility baiters in other states—it is open to considerable conjecture whether the most recent rate cut in New Jersey represents a significant change in the commission's previous attitude. If it should take the attitude that each division of a service which includes electricity, gas and transportation must increasingly stand on its own feet, it need hardly be said that the problems of Public Service would be greatly magnified, since its transport activities are a white elephant, the gas properties are only moderately profitable and electricity carries the heaviest part of the load.

Finally, in the sphere of politics and government, there is the matter of taxation, which has increased by approximately 27% since 1929, a fact which accounts in no small measure for a decline over this period of 17% in net earnings on a decline of about 12% in gross revenues.

That taxation of utilities has necessarily reached its limit—at a point which in the instance of this company amounts to considerably more than

the dividends paid the common shareholders—would seem a very optimistic assumption. Moreover, unless through mergers or other changes in the system's setup Public Service can find ways to eliminate or greatly reduce intercorporate dividends, the penalty taxes imposed by Congress at the last session will after this year further reduce the earnings available for dividends by approximately $1,000,000 a year.

Nor is that by any means the end of the story of taxation for Public Service. Ahead, and not very far ahead, loom the payroll taxes to be extracted under the Social Security Act adopted also at the last session of Congress. Finally, the expected early rescinding of the unpopular general sales tax in New Jersey will leave the state again in the search for revenues for unemployment relief. We do not predict that Public Service will be the goat or one of them. We advance the conjecture as merely something to think about.

In the economic sphere the paramount consideration is that we are in a recovery cycle marked by recovery of demand for electricity and by a long term expansion in the uses of electricity both domestic and industrial.

In the eleven years since 1924, despite rate cuts, the gross revenues of Public Service from electricity have increased from $34,889,632 a year to a present level around $64,000,000, or a net gain of about 88%. During the same period revenues from gas have increased only 19% and revenues from transportation have declined approximately 10%.

Hence, with its rates fixed and possibly stabilized—since the pressure for reductions logically can be expected to lessen as recovery lifts consumer spending power—the primary problem of Public Service, like that of every power enterprise, is to build a sufficiently large electric load to outweigh increased taxes and rising costs of materials incident to the generally inflationary trend upon which this country is embarked.

If there is to be a major rise in commodity prices over the next few years—and this would inevitably produce pressure for higher wages—it need hardly be said that an enterprise with rigid rates and rising costs would not be the happiest choice that one could make for investment.

On the other side of the picture the expectation that dynamic growth lies ahead for the use of electricity has a solid basis, since power sales already are at a new all time high, partly due to increased use of domestic appliances, notably refrigerators. There is no question of an early saturation point in electrical refrigerators, while uses of electric ranges and electric water heaters—both important load builders—have barely scratched the surface of potential demand. Nor have commercial and industrial uses of electricity reached a limit.

On the whole, then, there appears to be a better than even chance for a substantial recovery in gross and a moderate recovery in net, despite the obstacles recognized above. That it can be as dynamic a recovery as, for example, in the case of a well situated industrial company—free of public regulation—is, of course, not to be expected.

Again, the individual considering purchase of the common or preferred stocks of Public Service must, if he would not delude himself, realize clearly that he is not buying an electric stock but an electric-gas-transportation stock.

Here we come not only to a problem in corporate management but to a complex question of public policy. If government insists, as it does at present, that the company's transportation routes at a nickel fare are indispensable public services, then they obviously can be maintained at a loss only if Public Service electric and gas customers—and chiefly the former—pay the freight. Further, if there is to be dynamic growth in use of electricity for such appliances as cooking ranges, water heaters, etc., it obviously follows that this will compete with and encroach upon uses of gas.

If, as some contend, gas is a dying industry—the date of interment is not specified—the time will come when electric customers not only will have to subsidize Public Service trolleys and buses but may be called on also to carry the gas division. Admittedly, this is looking some years ahead.

For the twelve months ended September 30 no breakdown of electric, gas and transportation revenues is available. But for the year 1934 electric revenues were $64,208,090, gas revenues $29,298,090, and transportation revenues $25,611,181. For the Public Service Electric & Gas Co.—the backbone of the consolidated enterprise—electric revenues for 1934 were stated at $65,000,554 and gas revenues at $27,090,242. Some idea of the differences in earning power of the respective divisions can be had from the fact that the 1934 operating income of this subsidiary from electricity was $26,953,780 and the operating income from gas was $9,410,029. Meanwhile, on a consolidated basis, the transport services lost $1,159,354 for the year.

It is worth noting that the Public Service property investment in transport is carried on its books at $122,681,723, as compared with $134,509,832 in 1929, in which year, with gross transport revenues at more than $42,000,000, these operations resulted in profit of only $206,570. Total property account is carried at $626,504,061, against $578,466,124 in 1929.

Despite the drag of the transport division, the company's balance after all charges for the twelve months ended September 30 was equal to about 20% of gross revenues, as compared with a figure of 21.5% in 1929. A ratio of net equalling 20% of gross can hardly be called an unfavorable one and is higher than that of many utilities. For Public Service Electric & Gas Co., the big earner, this ratio for 1934 was approximately 30%

Due partly to some debt retirement, the fixed charges of the system were

(*Please turn to page* 109)

Prospects Brighten for Liquor Companies

Larger Sales as Seasonal Peak Nears Should Offset Lower Price Trend

By EDWIN A. BARNES

SURVEYING the liquor industry as the close of the second year of Repeal approaches, one can hardly fail to gather the impression that the problems with which the industry is currently concerned are pretty much the same as those which confronted it two years ago. Taxes, regulation, competition and bootlegging are the chief sources of uncertainty as to the future trend of profits in the industry. This is not to say, however, that the industry has failed to progress in the past two years. Quite the contrary, a definite semblance of order has been achieved out of the initial chaos and there is evidence that it has not failed to profit by its earlier experiences. Corporate leadership appears to be firmly established and the earnings of foremost companies have confounded skeptics by holding up remarkably well. But apparently lacking a reliable criterion and casting doubt upon the future trend of profits, market opinion is reflected in a low ratio of quoted values to earnings for the shares of representative companies. The point then is whether liquor shares offer a worthy investment bargain or whether they are a highly speculative medium to be avoided.

Nesmith Photo

Packing Operations

Best Months Just Ahead

As the industry approaches its peak of seasonal activity, there are well founded indications that the fourth quarter of this year will be the best since the short-lived boom immediately after Repeal. Sales are expected to be at least twice as large as in any other three months' period of the year. In the first eight months tax-paid withdrawals of domestic whiskey, gin, rum and brandy totalled about 37,700,000 gallons or nearly 75% larger than in the corresponding months of 1934 and for the full year the total may reach the impressive figure of 75,000,000 gallons.

Several factors account for the gain in current withdrawals. The sale of spirituous liquors has now been legalized in forty states, representing an aggregate population of around 100,000,000. The quality of liquor has improved, which coupled with lower prices and increased public purchasing power, has undoubtedly stimulated consumption. The inference also to be drawn from increased withdrawals is that progress is being made in stamping out bootleg activities. There appears to be little doubt, however, that a considerable amount of the liquor consumed escapes the tax collector, although how much cannot be accurately ascertained. Trade estimates made about a year ago placed the consumption of illicit liquor as equal to that of tax-paid consumption, while more recent estimates have shown a modest increase for the legal over the bootleg product.

Yet on the basis of official tax figures, consumption of whiskey is only 30% of what is was in 1914. Consumption of wine, of which there is probably very little bootlegging, is only 28% of the 1914 figures, while that of beer is less than half of the pre-prohibition figures. Bootlegging of beer is now held to be practically non-existant. In the circumstances, therefore, it seems unreasonable to attribute the failure of whiskey consumption to equal, or exceed, pre-prohibition levels entirely to the bootlegger. It is quite conceivable that Prohibition, the depression and moderation have been responsible for a change in the drinking habits of many people. But until the industry acquires a longer background, it is difficult to arrive at positive conclusions as to the trend of consumption. It is too soon to ascertain accurately the average annual consumption, although it seems quite evident that there is considerable room for increasing the consumption of legitimate products if some successful expedient is found for curtailing the bootlegger.

High Taxes

Much criticism has fallen to the lot of the Treasury Department for failure to urge a reduction in liquor taxes

Summary of Leading Liquor Stocks

	Earnings Per Share 1934	Earnings Per Share 1935	Recent Price	Dividend	% Yield
National Distillers.......	4.11(a)	2.08(a)	33	2.00	6.1
Schenley Distillers.......	5.08(a)	•4.53(a)	55	None	...
Distillers Seagrams......	0.66(b)	NF	33	None	...
Hiram Walker...........	4.40(c)	4.10	30	None	...

(a) 9 mos. to Sept. 30. (b) Year ended July 31. (c) Year ended Aug. 31.
NF—Not available.

as an effective means of putting the bootlegger out of business, continuing to rely upon enforcement agents, and apparently convinced that a reduction in present taxes would not be fully compensated for by increased receipts from legitimate sources. When the present tax of $2 a gallon on spirituous liquors was levied by Congress, that body failed to foresee that additional state levies would be superimposed on the Government tax. The combined tax represents what is in effect a lucrative profit for the bootlegger. There is, however, no indication at the present time of a possible reduction in taxes and the fact that Treasury receipts from liquor taxes are increasing would appear to militate further against such action.

The new liquor control law enacted at the last session of Congress has preserved many of the desirable features of the N R A code under which the industry operated until that law was invalidated by the Supreme Court. The new law forbids any kind of financial connection between distiller and retailer; stringent regulations are provided for the supervision of labeling; and the Government is prohibited from selling at auction any contraband liquors seized. The latter is particularly significant, for in the past Government sales of seized liquor frequently demoralized the market.

So far as imports of spirituous liquors is concerned, these have offered nothing approaching serious competition to domestic products, nor is there any prospect that this condition will be greatly altered in the future. It is estimated that imported whiskies, for example, are not more than 8% of total consumption at the present time and thus far this year imports of spirituous beverages are only 10% ahead of last year. Heavy import duties keep the price of imported liquors high and restrict demand. A hint of the difficulties which lie ahead for importers, particularly of Canadian whisky, is to be found in the recent price reductions in domestic four-year bonded whiskies by several leading distillers. Lowering the wholesale price of these brands by $7.50 to $9 case left Canadian bonded brands priced about $4 higher. Undoubtedly, when the large stocks of aging liquor now accumulating in domestic warehouses is ready for the market prices will be forced still lower. Moreover, competition with Canadian distillers may be further intensified should reciprocal tariff negotiations between the United States and Canada result in a reduction in the present duty of $5 a gallon.

Intense Competition

Competition between domestic and foreign distillers, however, is insignificant by comparison with that in the ranks of strictly domestic units. Although a sizable number of poorly financed companies have already succumbed, competition, if anything, promises to become even keener. For one thing, there are about 188,000,000 gallons of domestic whiskey now stored for aging and in another six months or so these stocks should amount to around 250,000,000 gallons, generally considered to be a normal supply. Although the bulk of these stocks will not be available in substantial quantities until 1938, it will be necessary for distillers to sharply restrict production next year if excessive supplies and price demoralization are to be avoided. The manner in which this situation is handled next year will bear close watching.

The trend toward lower prices has not been confined to the more expensive bonded brands but the recent reduction embraced the popular-priced brands as well. It is estimated that some 70% of all whiskey sold is priced at $1 a pint and the race between leading distillers to capture the bulk of this market has been both close and keen, with public tastes shifting to give the advantage first to one and then another producer. Not only has there been price cutting in the low priced field but recently this branch of the industry has been featured by the introduction of new brands, extensively advertised and priced at $1 a pint or slightly lower.

While lower prices have been the inevitable result of improved manufacturing and distributing technique and competitive pressure, it is of vital importance to the future of the industry that price cutting and other vicious competitive practices be not permitted to gain headway. Otherwise not only will the profits of all factors suffer but the industry runs the serious risk of adverse public reaction. Laws have been enacted in some of the larger states

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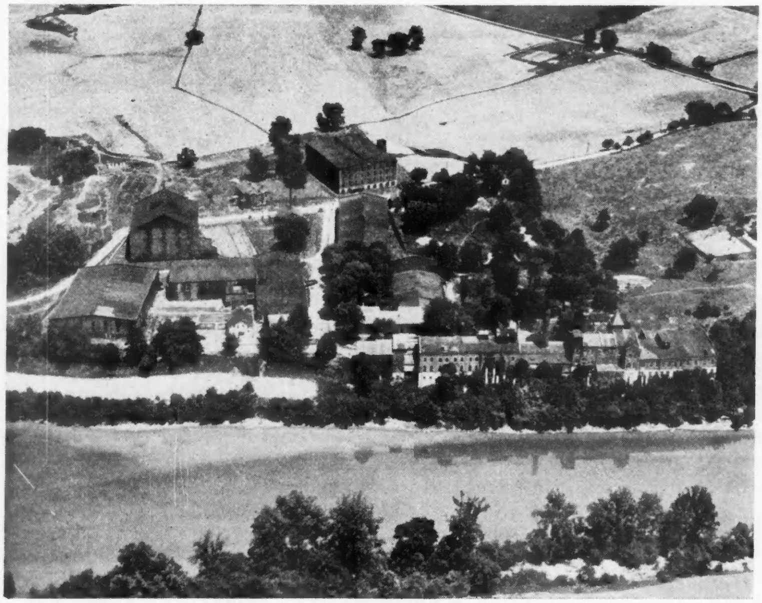


Courtesy, Schenley Distillers

View of a Modern Distillery

Marked Improvement Underway

Strengthening of Capital Structure Coupled With Excellent Physical Position Gives Favorable Outlook

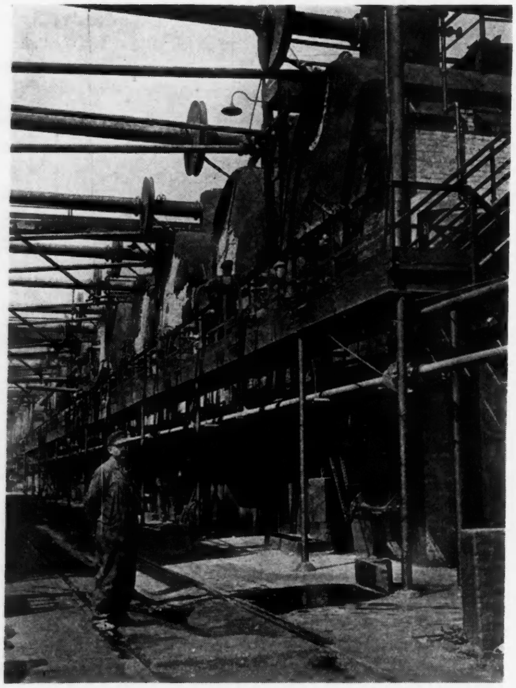
By Ward Gates

A WELL integrated oil company must be a combination of producing, transportation, refining and marketing facilities, their logical sequence of development being in the order named.

Given such a combination of units in efficient balance, the requirement for making profits is a satisfactory price level for gasoline and a profitable spread between that price level and the cost of crude oil.

But after the profit is made, the question of how much of it, if any, the stockholder will get necessarily depends upon the company's financial position and capital structure. Interest on bonds and bank loans comes first. Adequacy of working capital comes next. The claims of the preferred shareholders are next in order. Last of all, the common stockholder will receive consideration.

Applying the above fundamentals to the Pure Oil Co., its physical position is a strong one and its profit-making potentialities are promising—but its financial position and capital structure are not equally favorable, although substantially improved by a recent refinancing operation. In a nutshell, the company in recent years has concentrated chiefly on its physical development. This year it has made an important start toward improvement of its financial position and capital setup. The next development in all probability will be a further strengthening of the capital structure through elimination of accumulations on preferred issues and possibly through elimination of one class of preferred, the 130,000 shares of 8% cumulative stock now outstanding.



Galloway Photo

View in a Modern Refinery

Examining the position of Pure Oil from the ground up, the first consideration is proven underground reserves of crude oil. In the long run this is the most vital point of strength or weakness in the prospect of any integrated oil concern. We will not always have overproduction of oil. In fact, the reasoned view of qualified oil experts is that this evil—centering chiefly in the East Texas area in the past several years—has definitely passed its peak and that any probable recurrences of it will be sporadic and temporary. The East Texas fields now have a declining potential. Discovery of new and similarly troublesome pools in the hands of a great diversity of surface land owners is improbable. Meanwhile gasoline consumption continues to expand.

In short, the fundamental outlook for oil points to an improving balance of supply and demand—a trend already begun, however irregular and however subject to temporary unsettlement. Hence, the basic price trend of crude oil and gasoline should be upward, the first and most needed improvement being higher prices for gasoline, which is slightly out of step with $1 crude oil.

If the above view of the outlook is correct, then probably the first thing the investor or speculator in oil stocks should look to is crude oil reserves. In this respect, relative to either present or future refining and marketing requirements, few, if any, oil companies are more strongly situated than Pure Oil. Its proven reserves are estimated at between 300,000,000 and 400,000,000 barrels of crude and in recent years have been expanded far faster than they have been depleted. Present production is at a rate of around 18,000,000 to 20,000,000 barrels a year.

After depreciation and depletion reserves of around $55,000,000, oil reserves and producing facilities owned by Pure Oil are carried on its balance sheet at only $46,807,263. Taking the minimum estimate of 300,000,000 barrels of oil in proven reserves, its present market value is $300,000,000; and if figured at half the market value, or 50 cents a barrel, it would still be

worth $150,000,000, or more than three times the figure at which Pure Oil's producing department is valued on the company's books.

Ahead of the common stock are $32,000,000 4¼% fifteen-year sinking fund notes, $5,000,000 in bank loans, 2,360 shares of non-callable 5¼% cumulative preferred, 167,640 shares of 6% cumulative preferred callable at 110, 130,000 shares of 8% cumulative preferred also callable at 110 and accumulations of approximately $5,500,000 on these three classes of preferreds. Taking these obligations at the call prices of the 6% and 8% preferreds and at par for the rest, the total is approximately $75,000,000.

Therefore, behind each of the outstanding 3,038,370 shares of common stock are crude oil reserves at a minimum estimate of $74 on the basis of a present average crude oil price of $1 a barrel and allowing nothing for all other physical properties and investments. Cut the price of oil in half and the assets behind the common still would be more than $37 per share. The present market price of the common is around $12 per share.

Production Facilities

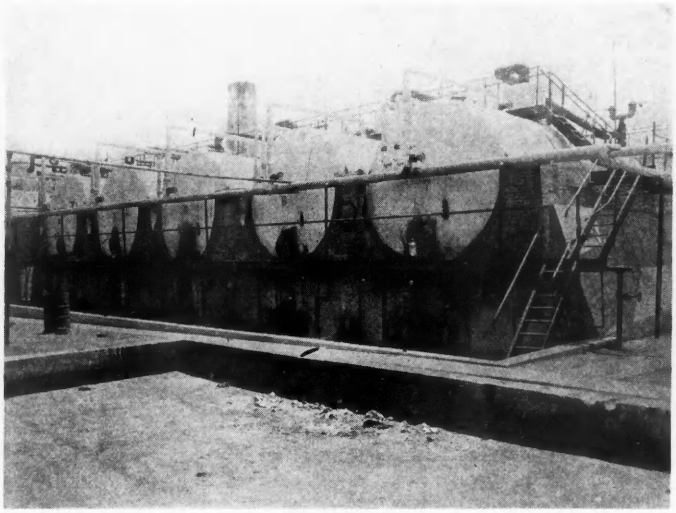
Lest the reader be misled, we hasten to observe that stocks sell on earning power, rather than assets—but proven supplies of crude are the foundation stone of any possible earnings in oil. Accordingly, strength in oil reserves constitutes point No. 1 in favor of Pure Oil.

The Pure Oil chief production at present is in the Van pool in Texas, the Bosco pool in Louisiana, the Cushing and Seminole pools of Oklahoma, the Cabin Creek pool of West Virginia, and the Midland and Porter pools of Michigan. It has production interests also in other fields of Texas, Louisiana, West Virginia and Oklahoma, as well as in the states of Ohio, Illinois, Kansas and New Mexico. The total is 161,240 acres of developed oil lands, 4,550 producing oil wells and 177 producing gas wells. In addition the company has under lease 653,500 undeveloped acres and owns in fee 13,030 undeveloped acres in California, Kansas, Kentucky, Louisiana, Michigan, Mississippi, New Mexico, Ohio, Oklahoma, Texas, West Virginia and Wyoming. Looking to the future, it owns a 75% interest in the Orinoco Oil Co. in Venezuela.

Such being Pure Oil's position in crude oil, we now look to the next step in oil's journey from the well to the ultimate consumer—the transportation system. From the producing fields crude oil is transported to refineries and terminals through pipe lines largely by wholly owned subsidiaries in Oklahoma, Louisiana, Texas, Michigan and West Virginia. These pipe systems consist of approximately 950 miles of main and gathering lines and 39 pumping stations, in conjunction with storage facilities for approximately 8,700,000 barrels. It has also a contractual interest in the Ajax pipe line, a link in a through system carrying oil from the Mid-Continent field to refineries in Ohio and West Virginia.

It owns a gasoline pipe line from its Marcus Hook, Pa., refinery to its terminal at Freemansburg, Pa.; owns control of a gasoline pipe line extending from Toledo, Ohio, to Detroit, and has a minority interest in the Great Lakes Pipe Line Co., whose system extends from Muskogee, Okla., to Minneapolis, with intermediate terminal facilities at Kansas City and Des Moines and branch lines to Omaha and Chicago.

Marine equipment includes eight ocean tankers with combined capacity of 394,000 barrels, thirty-two ocean and river barges with total capacity of about 420,000 barrels, and eleven tugs.



Crude Stills

Next we come to refineries and terminals. Of the former, there are seven, located at Heath, Ohio; Marcus Hook, Pa.; Muskogee, Okla.; Cabin Creek Junction, W. Va.; Midland, Mich.; Smiths Bluff, Texas, and Toledo, Ohio. The total daily capacity is 78,500 barrels of crude and 48,850 barrels of gasoline. Seven natural gasoline plants are owned in Texas, Oklahoma and West Virginia, with daily capacity of 21,100,000 cubic feet of gas and approximately 45,000 gallons of natural gasoline.

Principal terminals are at Savannah, Ga.; Norfolk, Va.; Wilmington, N. C.; Portsmouth, Va.; Kearney, N. J.; Hamtramck (Detroit), Mich.; Syracuse, N. Y.; Freemansburg, Pa.; Birmingport, Ala.; Augusta, Ga.; Johnson City, N. Y.; Exeter, Pa.; Mobile, Ala.; Cleveland, Ohio, and Trenton, N. J.

Earnings Outlook

That brings us to where the ultimate money will or will not be garnered—the retail market. Refined products are marketed through 500 bulk distributing plants, 2,600 service stations, and 4,400 other operated or controlled retail outlets. The principal sales are in the twenty-three states of Alabama, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Louisiana, Michigan, Minnesota, Mississippi, New Jersey, New York, North Carolina, North Dakota, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, West Virginia and Wisconsin.

Such are the physical outlines of an enterprise capitalized at a depreciated value of $144,589,289 and worth a lot more—when, as and if potential earning power is permitted by market conditions to be translated into actual earning power. As to that, the current trend appears to be favorable. Against a loss of $884,872 for 1934—the first in its history — Pure Oil for the first eight months of this year is estimated to have had a profit of about $5,000,000.

This would be approximately $17 per share on the combined issues of preferred stocks after prior charges; and after allowing for the regular dividends to which the preferred issues are entitled, but on which no payments have been made since April 1, 1933, would leave around $1.20 per share for the common.

In its recent refinancing Pure Oil issued $32,000,000 in 4¼% fifteen-

(Please turn to page 107)

Six Stocks With Major Improvement Ahead

Selected by THE MAGAZINE OF WALL STREET STAFF

Spiegel, May, Stern Co., Inc.

In 1931 Spiegel, May, Stern abandoned all of its retail store activities and has since concentrated its efforts in the mail order field. This was a timely move—one which enabled the company to capitalize handsomely the marked increase in farm purchasing power. Moreover, the company's management took advantage of the sub-normal prices prevailing at the depths of the depression to stock up liberally with inventories, to the ultimate advantage of profit margins.

Earnings Per Share 1st 9 mos. 1934	1st 9 mos. 1935	Recent Price	Div.	Yield
$8.55	$5.18	$79	$3	3.8%

The change in the company's merchandising methods was followed by an increase in sales from about $7,000,000 in 1932 to $13,500,000 in 1933 and $26,750,000 in 1934. The gain in profits was correspondingly marked. A $318,000 loss in 1932 was supplanted in the following year by a profit of $1,318,000, while profits in 1934 totalled $2,749,000.

Following the company's withdrawal from the retail store division, involving the disposal of thirty units, its position in the mail order field was strengthened by the acquisition of the mail order business of Straus & Schram in 1931, and that of Elmer Richards Co. in 1932. The present line of merchandise includes, wearing apparel, house furnishings, hardware, jewelry and various miscellaneous items such as automobile accessories, etc. A large volume of the company's business is conducted on an installment basis, which accounts for a gain of nearly $5,000,000 in receivables last year to $12,662,000.

Following a poor first quarter this year, when profits amounted to only $292,145 compared with $598,803 in the initial quarter of 1934, both sales and profits have registered encouraging improvement. Sales for the nine months to September 30, last, totalled $22,150,234, or an increase of 37.8% over the same months of last year. Profits of $1,509,779 this year compared with $1,695,047 last year. The failure of profits in the current year to reflect the substantial gain in sales is due in part to the poor first quarter but more so to the exhaustion of low cost inventories and reduced prices. Recent months, however, have improved the ratio of net income to sales.

Last June the company issued additional common stock for the purpose of providing funds for the reduction of bank loans and the outstanding common was increased from 175,000 shares to 253,000 shares. Ahead of the common are 40,536 shares of 6½% preferred stock. There is no funded debt aside from about $600,000 in real estate mortgages. Giving effect to the increase in the amount of common stock outstanding, net income for the first nine months this year was equal to $5.18 a share, after preferred dividends. This compares with $8.55 a share on 175,000 shares in the corresponding months last year. With the final quarter likely to contribute heavily to sales and earnings, the common stock may earn close to $8 for the full year. This would compare with $14.21 a share on the smaller number of shares last year.

Dividends on the common stock were recently resumed at the rate of $3 annually, which rate appears conservatively within the company's demonstrated earning power. At 79 the shares return a yield of nearly 4% and are not excessively valued in relation to indicated earnings. With retail trade approaching its season of greatest activity market interest in merchandising shares might add important appreciation to Spiegel, May, Stern common.

Granite City Steel Co.

Although one of the smaller independent steel units, Granite City Steel can boast a better depression record than many of the larger companies identified with the industry. As a matter of fact, the company being a more compact unit was doubtless better able to adjust itself promptly to the depression than the more widely flung, but cumbersome, companies. In any event, the company was able to avoid red ink operations.

Earnings Per Share 1st 9 mos. 1934	1st 9 mos. 1935	Recent Price	Div.	Yield
$0.60	$1.63	$29	$1	3.4%

The Granite City Steel Co., is the leading manufacturer of tin plate in the St. Louis area, with facilities capable of turning out 1,500,000 base boxes of tin plate annually. Demand for tin plate emanates principally from the dairy and agricultural regions in the middle and south west, and both the American and Continental Can companies are included among the company's customers. The company sells practically no steel to either the railroad or automobile industries, making only flat products utilized by manufacturers of lockers, kitchen ware, galvanized buildings, electric refrigerators, boilers, tanks, heavy containers and steel roofing. At present the company is engaged in a plant modernization program involving an outlay of about $4,500,000, of which $2,396,000 was raised through the sale of 127,496 additional shares of capital stock earlier this year.

Further in the company's favor is the simple and conservative capital structure. Capital stock (giving effect to the sale of additional shares) is outstanding in the amount 382,488 shares and comprises the entire capitalization. There is no funded debt. As of May 31, last, current assets, including $2,386,738 in cash and U. S. Treasury notes, amounted to nearly $5,000,000, while current liabilities were only $429,483.

In the boom year 1929, the company earned $5.75 a share on its stock and although earnings in the subsequent years were sharply lower, the only year

in which at least $1 a share was not earned was in 1932 when a modest profit was equal to only 5 cents a share. Throughout this period of reduced earning power, the company, nevertheless, continued to make adequate allowances for depreciation. Last year earnings were equal to $1.01 a share on the stock, as compared with $1.99 a share in 1933 when the industry was characterized heavy forward buying in anticipation of advanced prices. In each quarter this year, however, earnings have been ahead of the corresponding months last year and for the nine months to September 30, profits were equivalent to $1.63 a share on 254,992 shares, as against 60 cents a share for the first nine months of 1934. Had the additional shares recently issued been outstanding during the current period profits would have amounted to $1.09 a share. While the increased stock will have the effect of diluting per-share results in subsequent quarters, this should be offset in part, at least, by lower costs and increased efficiency of the new plants.

On the whole, therefore, and giving consideration to the company's strong financial position, the security of the present $1 dividend appears assured. Further, the expectation of continued recovery in earnings seems logical, particularly in view of the greater purchasing power of the farmer. At 29, the shares are reasonably valued by comparison with other leading steel stocks and may be conceded interesting speculative possibilities over the period ahead.

Young Spring & Wire Corp.

The (L. A.) Young Spring & Wire Corp. this year will show the largest earnings since 1929, culminating a steady recovery since 1932 when the company suffered a loss of less than $200,000, the only deficit in more than

Earnings Per Share 1st 9 Mos. 1934	1st 9 Mos. 1935	Recent Price	Div.	Yield
$1.84	$3.09	$41	$2	4.9%

twelve years. The company's ability to weather the forces of depression with comparatively little difficulty, like many another small compact organization, was in a large measure due to its greater flexibility. On the other hand, the strong recuperative power displayed largely reflects the remarkable recovery of the automotive industry, with which it is closely associated.

The company is a prominent manufacturer of spring wire products, including bed mattress springs, industrial coil springs, wire garment hangers, etc., but by far the largest portion of its business is in the manufacture of upholstery springs for automobiles. The company is credited with supplying some 60% of the total requirements of automobile manufacturers and numbers among its customers such leading companies as Ford, Chrysler, General Motors, Nash and others. In all, automobile business is estimated to account for about 80% of the company's total volume.

Aside from a small mortgage, the 389,198 shares of stock comprise the company's entire capitalization, a circumstance which naturally permitted shareholders to reap practically the full benefit of earnings recovery. Dividends were resumed in August, 1934, by a quarterly payment of 25 cents and since October of last year regular dividends have been augmented by quarterly extras of 25 cents. Recently the shares were placed on a regular $2 annual basis and the late trend of earnings lends weight to the possibility of further extras in the not distant future.

After the deficit in 1932, profits in the following year were equal to $1.07 a share and, in 1934, rose further to $2.09 a share. Up to September 30, this year, the company's earnings totalled $1,202,836 or the equivalent of $3.09 a share, against $1.84 in the same months of 1934. With the advanced production schedules of the leading automobile manufacturers this year, the final quarter may make a larger contribution to annual earnings than in the past and per-share results for the full year may approach $4. While granting the highly specialized nature of the company's business and its heavy dependence upon the automobile industry, this condition is not a recent one and the company has made a very satisfactory record for itself in the past. With all interests anticipating another banner year for the automobile industry, Young Spring & Wire would seem to have an excellent opportunity to further extend its earnings recovery. This opportunity would not appear to be discounted in current levels around 41 for the shares, a figure which is only about 10 times *current* earnings.

Adams-Millis Corp.

The Adams-Millis Corp., is the largest manufacturer of low priced hosiery and is one of the few concerns identified with the textile industry able to survive the depression with consistently profitable operations. The company's worst year—1932—produced earnings of $1.03 a share for the common stock, and for more than five years earnings have averaged better than $3 a share annually on the common stock.

Formerly Adams-Millis manufactured cotton hosiery exclusively but in recent years it has conformed to changing style trends and has enlarged its

Earnings Per Share 1st 6 Mos. 1934	1st 6 Mos. 1935	Recent Price	Div.	Yield
$1.97	$1.46	$34	$2	5.9%

line to include both silk and rayon products, with promising results. In maintaining a strong competitive position, the company has been aided by the strategic location of its plants in relation to the sources of raw materials and it also gains the advantage of lower labor costs in the South. About 75% of the output is distributed to leading mail order and chain store systems on a contract basis and the company is credited with supplying about 40% of the cheap hosiery requirements of the country. Another factor which has contributed to the stability of earnings has been the company's inventory policy. Most of the necessary raw materials are purchased against actual orders on hand, enabling the company to avoid the frequent and costly inventory adjustments which have characterized many branches of the textile industry.

Capitalization of Adams-Millis consists of 17,500 shares of 7% preferred stock and 156,000 shares of common stock, on which dividends are currently being paid at the rate of $2 annually. Financial position is wholly satisfactory. As of June 30, last working capital of $2,515,857 compared with total assets of $4,649,600. Cash and marketable securities amounted to nearly $2,000,000.

Last year the company reported net income of $648,953, equivalent, after preferred dividends, to $3.41 a share on the common stock, comparing with $2.63 a share earned in 1933. The company does not publish quarterly reports but in the first six months of this year, net income of $282,994 was equal to $1.46 a share for the common after preferred dividends. This was a decline of 51 cents a share from first half earnings a year ago. It is probable, however, that this decline was largely due to temporary conditions growing out of the reluctance of buyers to place forward orders in any sizable quantity, pending a decision as to the validity of the processing tax. More recent months

have witnessed a conspicuous improvement in all branches of the textile industry and it may be assumed that Adams-Millis has participated. In any event, the company's earnings for the full year should provide an adequate margin for the present $2 dividend. At 34, the shares yield nearly 6%, which lends considerable merit to them as income-producing medium.

Crown Cork & Seal Co., Inc.

With the results for three quarters of the current year now known, it is a foregone conclusion that profits of Crown Cork & Seal Co., will be the best in the company's history. This is a noteworthy accomplishment, judged by any standard, particularly as it will not be the result of temporary or non-recurring circumstances.

The principal business of the company consists of the manufacture of bottle caps, familiarly known as "crowns" and bottle filling and capping machinery. As might be expected, the company has been a principal beneficiary of Repeal. Yet prior to that event, operations yielded a comfortable profit, for while Repeal greatly increased the demand for bottle caps, the company's products are also utilized by manufacturers of soft drinks, as well as food products and drug specialties. Moreover, included among the company's output are automobile gaskets, various automobile body materials, leather substitutes used mainly by shoe manufacturers, lithographing varnishes, lacquers, inks and synthetic resins.

Recently the company sold $5,500,000 15-year 4% sinking fund bonds,

Earnings Per Share 1st 9 Mos. 1934	Earnings Per Share 1st 9 Mos. 1935	Recent Price	Div.	Yield
$2.69	$3.69	$45	$1	2.2%

the proceeds of which were applied to the redemption of all the 6% bonds outstanding, resulting in an important savings in interest charges. The balance of these funds will be utilized in making various additions to plant, including the necessary equipment for the development and manufacture of metals appropriate for use in its cap and closure business. Also, the company is developing tin containers for the packaging of beer and other products.

In addition to the aforementioned bonds, there are 145,363 shares of $2.70 preferred stock and 370,642 shares of common stock outstanding. On June 30, last, current assets totalled $7,703,595, while current liabilities were $1,307,407. Cash amounted to $1,140,122. Following a loss of less than $22,000 in 1932, the only one since the company was organized, earnings have undergone steady improvement. Applied to the common stock, profits in 1933 and 1934 were equal to $1.51 and $2.41 respectively. In the first six months of the current year, however, the company came within 31 cents of earning as much for the common as in the entire 1934 year, while for the nine months to September 30, profits after all charges and preferred dividends were equal to $3.69 a share. The company's business is seasonally stimulated during the summer months but even allowing for a less active final quarter, common stock earnings should be in excess of $4 a share. On this basis, the shares, at 45 are quoted at only about ten times earnings. Further, an increase in the $1 dividend appears to be distinct possibility.

Wesson Oil & Snowdrift Co., Inc.

The fact that common stockholders of the Wesson Oil & Snowdrift Co., have not failed to receive a dividend in every quarter since payments were inaugurated in 1927 gives adequate testimony of the profitable character of the company's business and the skill of its management. The latter has been a particularly important factor for the nature of the business is such that it involves an element of speculation calling for managerial judgment and foresight.

The company is the second largest domestic manufacturer of cotton-seed-oil products and normally supplies about 20% of the annual consumption. Activities are completely integrated and facilities include crushing mills, refineries, tank cars, etc. The principal outlets for refined cotton-seed-oil products are in bulk to bakers, manufacturers of mayonnaise, potato chips and soap. These account for about 75% of the company's sales, while packaged products such as table and cooking oil and shortening account for the balance. The latter return a wider margin of profit and the company has been actively engaged in promoting their sale by extensive advertising campaigns.

Engaged in processing raw cotton seed into the refined oil, it is obvious that prices of the latter product determine profits and the ability of the management regulate inventories plays an important role in avoiding costly write-offs during a period of falling prices. This is well exemplified in the recent history of the company. Sensing the possibilities of the situation several years ago, the management took advantage of the low prices then prevailing to accumulate one of the largest inventories of raw cotton-seed-oil in the company's history. As a consequence the company has profited handsomely by the rise in prices which followed. From around 4½ cents a pound in 1933, the price of cottonseed

Earnings Per Share 1934*	Earnings Per Share 1935*	Recent Price	Div.	Yield
$2.03	$6.52	$50	$2.50(a)	5.0%

* Fiscal year ended Aug. 31. (a) Incl. extras.

oil more than doubled last year, while in the current year the price has held around 10½ cents to 11 cents, the best levels in more than five years. The extent to which the company has profited by the management's foresight is reflected in the earnings of the past two years.

For the fiscal year ended August 31, last, the company reported earnings equivalent to $6.52 a share, comparing with $2.03 a share in 1934 and 71 cents a share in 1933. Net sales in the past fiscal year totalled nearly $63,000,000, as compared with $38,582,236 in the previous fiscal year, although the actual gain in tonnage was only about 6%. At the end of the current fiscal year financial position of the company was excellent and it was officially stated that inventories were carried sufficiently under the market to protect the company against likely market declines. Current assets, including cash of nearly $6,500,000, amounted to $28,761,352, while current liabilities were $4,625,428, a ratio of 6 to 1. While the longer term outlook is impossible to predict, present prospects augur favorably for the current fiscal period.

Ahead of the 600,000 shares of common stock are 295,655 shares of $4 preferred. There is no funded debt. Including extras, dividends on the common stock this year have aggregated $2.50 and in view of the company's ample liquid resources, an increase in the 12½-cent quarterly rate is indicated, or perhaps a more generous extra.

Even conceding that late earnings may be abnormally high, this condition would appear to be fully discounted in the present level of 50 for the shares and given reasonably favorable conditions in the current year, the stock would justify a more liberal market appraisal.

Taking the Pulse of Business

—Steel Demand Steady
—Copper Sales Slacken
—Oil Prices Firmer
—Rail Earnings Improve
—Diesel Output Spurts

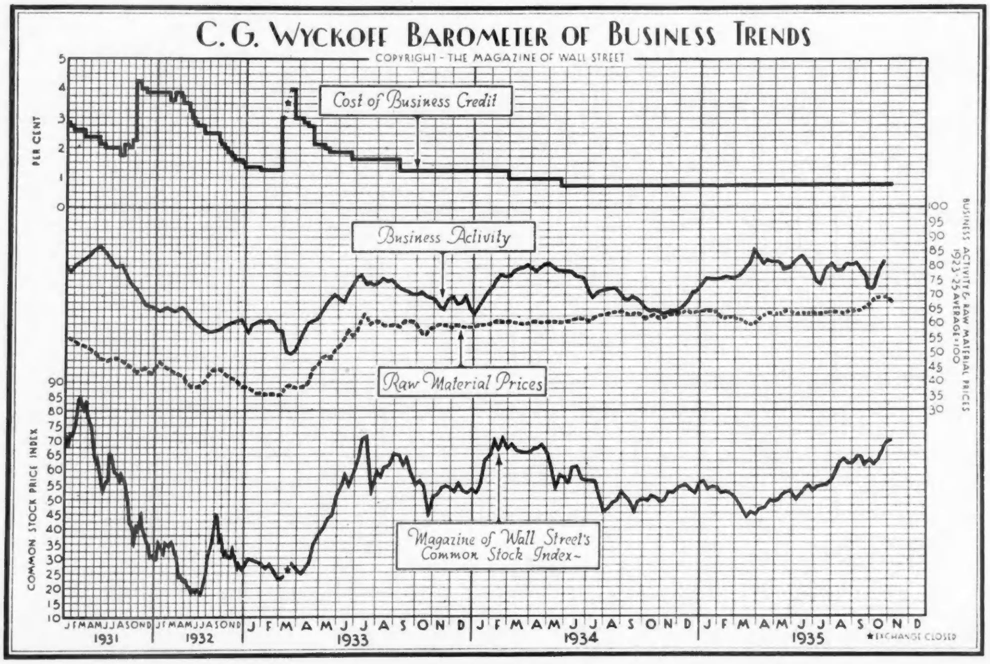
OWING largely to sharp recovery in automobile and coal production, with a consequent increase in car loadings, the Business Activity Index has rebounded since our last issue to approximately 80% of the 1923-5 average, which is about 23% higher than last year's level at this date. Cotton cloth production is also rising gradually in response to improved conditions in the textile trade. With specifying by the automobile industry rather slow at the present time, steel operations are showing but small gains; while check payments, lumber shipments and electric power output continue to fall somewhat short of seasonal expectations. It should be noted that part of the recent rise in carloadings springs from unusually heavy shipments of coal which will soon contract again now that the new price schedule has been posted. However, it seems quite possible that expansion in automobile assembling during November will be fast enough to more than compensate for receding coal output and so result in further gains for the Business Activity Index.

September as a whole witnessed a recession of 3.2% in the country's physical volume of production as compared with the preceding month; but topped the level for September, 1934, by about 12%. These comparisons are derived from our own Business Activity Index, and agree closely with the seasonally adjusted index of check payments, which is the most comprehensive of all business indicators.

Barring more unfavorable developments abroad, present prospects point to continued improvement in business conditions at home up to at least the summer of 1936. There will be, of course, the usual let-down over the year-end holidays; but this should be comparatively moderate and of short duration. The fact is that the country's purchasing power is still expanding too rapidly to permit of any serious business recession in the near future. During September, for example, business payrolls exceeded the previous year for the first time since February, and real wages are now 3% higher than a year ago, measured on a weekly basis. Farm income in September, thanks largely to a war-scare rise in prices, was only 1% lower than a year ago, compared with a decrease of 2.5% in August and a drop of 11% in July.

In keeping with expansion in the public's purchasing power retail sales outside New York during the first half of October are reported to have exceeded the dollar total for the corresponding period a year ago by 12%. Sales in the New York Metropolitan area have been held back by unseasonably warm weather and delays in getting work relief funds into circulation. Chain drug stores throughout the country, thanks to gains of 5.5% in tobacco sales and 6.5% in fountain trade, did 1.5% more business in September this year than last, though other departments slipped 2.5%. Fifty-nine telephone companies report a 4% gain in gross income for August, and a 12% increase in net operating income.

A recently expressed opinion from President Crane of the Investment Bankers Association that the capital markets



are near a transition from refunding operations to the large-scale flotation of "new money" issues appears to be supported in part by the September report of residential building permits which gained 76% over the previous year in estimated cost. At the present time, of course, much of the capital for this important type of expenditure is being supplied by commercial banks under the guarantee of F H A; but sooner or later the growing demand for securities must lure the capital goods industry into the open market.

Brighter peace prospects in Europe have halted the rise in our Raw Material Price Index; but were partly responsible during the past fortnight for renewed strength in bonds and in the Common Stock Index.

The Trend of Major Industries

STEEL — Heavier specifications from makers of textile machinery, machine tools, kitchen ware, washing machines, stoves, beer barrels, and automobiles during the past fortnight have somewhat more than compensated for seasonal declines in demand from the canning, refrigerator and farm implement industries; so that the country's steel ingot rate has advanced to around 52% of capacity, or more than double last year's low rate. If present tentative schedules for 1936 are realized, automobile production in 1936 will reach 4,500,000 units and so increase the call for steel from this source by at least 20% over takings during the present year. We say "at least;" because the new models, especially those with steel tops, will use from 50 to 170 more pounds of steel per unit, allowing for the present trend toward heavier cars. Third quarter earnings, especially of the smaller steel companies with modern equipment, compared favorably with last year, and the final quarter may make an even better comparative showing.

METALS—Only Federal support at the 65⅜-cent level has prevented a break in silver from heavy sales by China during the past fortnight. Both foreign and domestic demand for copper have tapered off somewhat since our last issue, though the price remains unchanged at 9¼ cents. Foreign copper has sagged to 8.7 cents. The tin cartel, having considerably underestimated world demand, has again raised its quota—this time to 80% of standard tonnages; but it will probably not be until next year that this will result in any substantial increase in supply. The fact is that tin ore reserves are getting low and will have to be husbanded; so that sooner or later users must count on rising prices.

PETROLEUM — Although crude production in California is still regarded as excessive, several refiners in that state have restored prices obtaining prior to the recent drastic cut. In some quarters such action is regarded as premature; but it does indicate that conditions there have not become so acute as was at first feared. Unprecedented consumption of motor fuel has thus far been able to absorb increased production in other parts of the country with resulting improvement in earnings. Profits of refiners who are dependent upon purchased crude, however, are still held down by trade warfare between major units and the smaller independents, who have been unable to get together as yet on the price of gasoline.

RAILROADS—The first 26 roads to report for September show gains of 12.4% in gross revenues and 52.5% in net operating income over a year ago. Even so, aggregate net amounted to only $30,000,000. In August, 26 out of the 60 Class I carriers covered fixed charges, compared with only 18 in July and 22 in August, 1934.

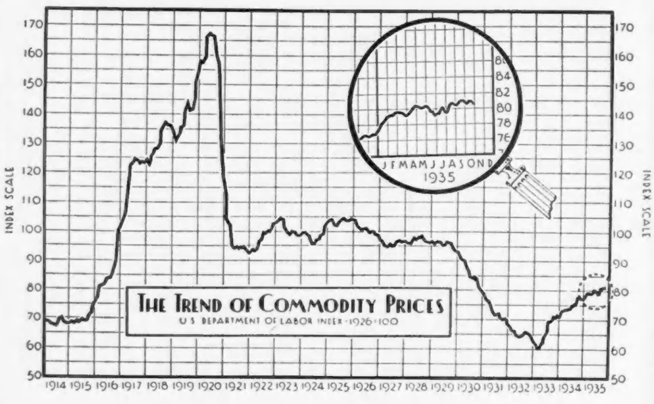
RAILROAD EQUIPMENT — During the first nine months, Class I railroads installed only 3,172 new freight cars, 28 new steam locomotives and 101 new electric locomotives; compared with 19,109, 14 and 12, respectively, during the corresponding period last year. Recent gains in car loadings and earnings offer some encouragement, however, of gradual improvement in the equipment industry. On October 1, new freight cars on order came to 7,444 compared with only 5,495 last year and 275 on the same day in 1933.

AIR CONDITIONING — Installations during the first nine months numbered 1,931 compared with only 1,596 for all of 1934. Oil burner permits throughout the country in September amounted to 5,507, or 27% of the total for the first nine months.

DIESELS—Diesel engine output for 1935 is estimated at 1,400,000 h.p., against 758,000 for 1934. Makers believe that sooner or later the Diesel will be generally adopted for motor truck drive; but no widespread use by passenger automobiles is expected for some time to come. One great obstacle is the malodorous exhaust.

Conclusion

Continued expansion in the public's spending power, along with the Government-fostered improvement in residential construction activities, are pushing up retail sales, and rendering it highly improbable that the country will witness any serious set back in business activity before next summer, except for a brief let-down over the year-end holidays. For the more distant future, some form of inflationary stimulus to business would seem to be an inevitable consequence of mounting bank reserves. Such an abnormally low Cost of Business Credit as we have been witnessing must slowly but surely usher in an era of expanding bank credit which, for political reasons, it will be difficult to control.

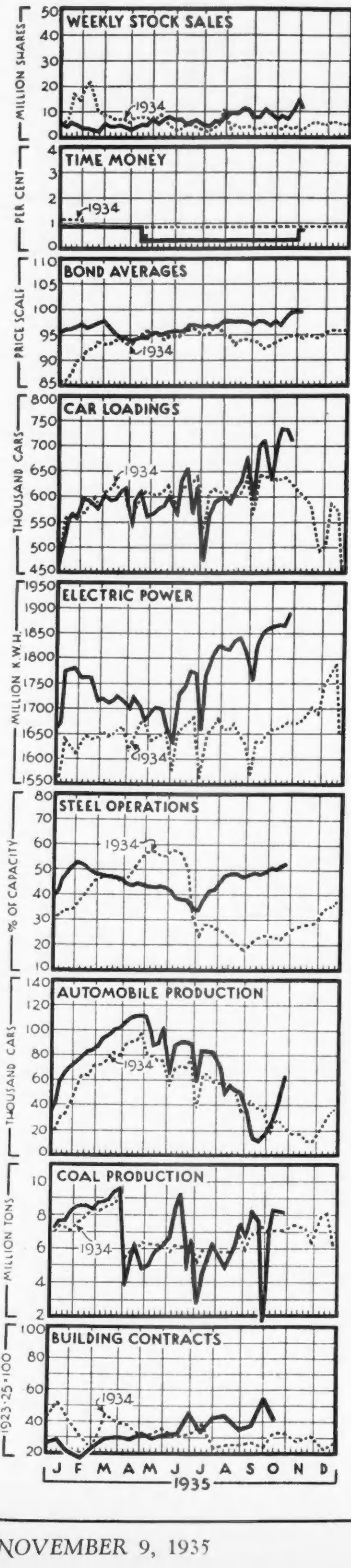


Changes in Major Commodity Price Group for the Fortnight Ended October 26, 1935

Farm Products	down	1.5	Metals	up	0.1
Foods	down	0.9	Building materials	down	0.2
Hides and leather	up	1.3	Chemicals	up	0.6
Textiles	up	0.7	Housefurnishings	up	0.1
Fuel and lighting	up	0.2	Miscellaneous	up	0.1

The Magazine of Wall Street's Indicators

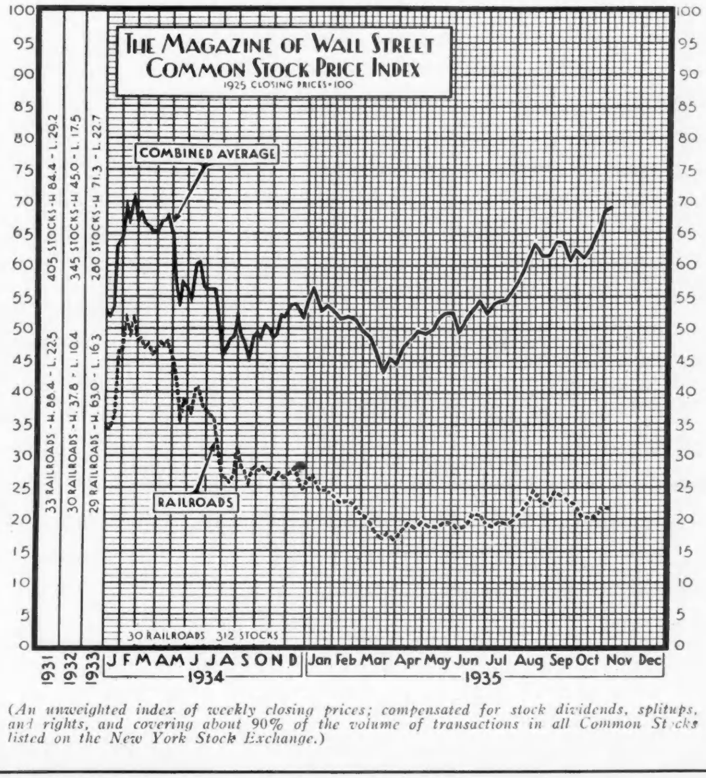
Business Indexes



Common Stock Price Index

1934 Indexes High	1934 Indexes Low	1934 Indexes Close	Number of Issues	(1925 Close—100)	1935 Indexes High	1935 Indexes Low	Oct. 19	Oct. 26	Nov. 2
71.2	45.0	54.6	288	COMBINED AVERAGE...	69.0	43.0	65.2	68.7	69.0h
105.7	44.2	87.0	5	Agricultural Implements....	109.8	64.1	102.7	104.9	109.8h
42.3	20.2	27.1	6	Amusements..............	38.5	17.8	38.5h	38.1	36.8
58.9	35.2	55.5	13	Automobile Accessories....	103.5	44.6	98.0	103.5H	102.3
24.9	11.8	14.2	13	Automobiles..............	17.6	8.8	15.8	17.6h	16.7
92.5	43.6	60.1	5	Aviation (1927 Cl.—100)....	68.0	41.3	68.0h	65.9	65.4
17.4	8.7	9.2	3	Baking (1926 Cl.—100)......	13.7	7.9	13.7h	12.6	13.1
240.9	153.6	191.8	2	Bottles & Cks. (1932—100)..	309.6	184.9	246.9	283.5	309.6H
136.0	100.0	131.6	4	Business Machines........	185.2	113.7	170.2	185.2H	182.9
229.5	178.9	227.5	2	Cans....................	319.0	226.1	303.7	319.0H	312.1
210.5	134.3	167.2	8	Chemicals...............	197.6	144.6	194.8	196.1	197.6h
37.2	22.1	28.8	16	Construction............	35.3	22.6	31.9	34.2	35.3h
70.1	40.1	43.8	5	Copper..................	78.8	35.7	73.1	74.7	77.3
37.0	25.7	32.0	2	Dairy Products..........	34.6	27.5	34.6h	34.5	34.5
26.8	16.4	21.2	8	Department Stores........	24.9	16.0	24.2	24.9h	24.6
84.2	56.0	73.1	7	Drugs & Toilet Articles....	75.2	56.1	67.0	74.0	75.2h
91.3	59.1	78.7	3	Electric Apparatus........	161.9	70.1	150.2	161.9H	159.9
211.2	103.8	211.2	2	Finance Companies........	270.0	211.2	270.0H	250.3	244.4
64.0	51.1	58.3	7	Food Brands..............	63.5	51.8	57.8	62.5	63.5h
71.1	55.1	55.7	4	Food Stores..............	56.4	46.5	48.9	49.3	48.9
58.8	36.2	45.4	3	Furniture & Floor Coverings	63.9	32.1	61.1	63.6	63.9H
1372.0	1106.0	1164.9	3	Gold Mining..............	1209.7	990.2	1018.2	1000.7	990.2x
35.6	25.1	35.6	5	Household Equipment.....	42.2	35.3	40.6	41.7	41.3
31.8	19.3	20.8	4	Investment Trusts.........	33.2	17.0	30.4	32.2	33.2h
295.5	164.0	247.0	3	Liquor (1932 Cl.—100).....	346.1	223.6	317.4	325.4	346.1
53.4	34.2	44.2	2	Mail Order...............	60.4	36.0	57.3	60.2	58.4
88.6	51.9	62.0	3	Meat Packing.............	62.2	34.5	56.8	52.6	51.5
160.1	117.4	127.8	11	Metal Mining & Smelting..	160.3	109.4	151.8	154.6	160.3H
86.8	52.0	58.2	23	Petroleum................	78.2	51.3	70.0	76.4	78.2h
25.0	15.2	21.0	3	Phonos. & Radio (1927-100)	24.3	15.9	22.2	23.4	24.3h
72.8	32.1	34.8	18	Public Utilities..........	63.8	23.0	53.4	58.7	61.3
66.2	34.9	43.9	8	Railroad Equipment.......	44.8	29.3	38.7	43.5	44.8h
52.0	24.5	25.8	25	Railroads................	26.7	17.5	20.7	22.0	21.7
15.9	6.0	8.8	3	Realty..................	11.2	5.2	9.6	10.1	11.2h
50.2	28.9	41.6	3	Shipbuilding.............	55.1	28.5	54.5	55.1	54.5
77.0	42.0	54.4	10	Steel & Iron..............	77.8	37.6	73.4	76.4	77.8H
31.3	20.4	22.2	5	Sugar...................	30.4	21.1	25.1	26.2	26.5
214.0	131.5	143.2	2	Sulphur.................	150.3	122.5	137.5	141.2	144.2
70.3	40.2	45.2	3	Telephone & Telegraph....	66.7	34.2	64.6	66.7h	65.6
65.8	37.5	47.8	8	Textiles.................	68.2	34.7	64.6	68.2h	66.2
14.6	7.6	9.0	5	Tires & Rubber...........	9.3	6.0	7.5	8.1	8.4
88.6	66.5	84.7	4	Tobacco..................	100.9	77.2	99.7	100.1	100.9H
73.5	43.5	65.0	3	Traction.................	85.4	51.0	80.6	80.8	79.7
275.5	43.6	258.2	3	Variety Stores............	282.8	219.7	282.8H	281.2	279.7

H—New HIGH record since 1931. h—New HIGH this year. x—New LOW this year.



(An unweighted index of weekly closing prices; compensated for stock dividends, splitups, and rights, and covering about 90% of the volume of transactions in all Common Stocks listed on the New York Stock Exchange.)

A STATEMENT BY

GENERAL MOTORS is presenting its 1936 offerings. The new cars are now on display by General Motors dealers everywhere.

As you view the new models, you will see that progress by evolution has been continued. Nothing especially revolutionary or radical is being offered—our effort has been toward more safety, improved mechanisms, greater eye appeal—all with increased economy of operation and maintenance.

These advances are the result of another year's work by the General Motors engineering staffs. I believe you will like our cars for 1936.

This year the time of announcing new models has been advanced in the hope that there will result more uniform retail sales. Such sales are highly seasonal. For instance, normally 12% of the cars are retailed during the month of April, as against 3% during the month of December. Production, therefore, is necessarily irregular.

The annual income of the worker is adversely affected by this irregularity—important, not only to the worker, but to the national economy as well. And this affects everybody. Any improvement will affect favorably the workers of many other industries. This is progress.

General Motors recognizes its responsibility in this connection. It not only heartily supports the program, but in addition has set aside $60,000,000 as a stabilization fund. The objective is further to equalize employment through the accumulation of inventory by maintaining the manufacture of component parts during the winter when industrial employment is sub-normal and outside employment largely eliminated.

General Motors asks your support toward this most worthy objective. In fact, the extent to which that objective is attained, depends upon your co-operation. So if you are thinking of a new car for 1936—buy now. There is no adequate reason why that car should not be purchased now. It is the same car, now or later.

There is another problem of public importance in which General Motors recognizes a primary as well as a secondary responsibility—SAFETY. This problem involves not only the car, but the highway; and still more importantly, the driver and the pedestrian.

Let us first consider the car—a primary responsibility. Safety involves construction as well as maintenance.

The "turret top" will be a part of all General Motors cars in 1936. This consists of a solid steel structure, with the supporting members integral with the top and with the main structure of the body itself. Adequate strength is provided to insure safety even in the event of unusual accidents. This has been amply demonstrated by experience.

"Knee-action," or independent springing, while looked upon only as providing a "better ride" is in reality also an added safety device. Each wheel absorbs its own shocks—important in case of accidents or bursting of a tire.

And Fisher no-draft ventilation likewise provides not only comfort, but safety as well.

GENERAL MOTORS

Many consider that safety and power are antagonistic. This is not necessarily so. Ample power, intelligently used, may well promote safety. Far less power, unintelligently used, may be hazardous.

The motor car of today, notwithstanding the fact that power has been notably increased, can be controlled more effectively than the car of yesterday. Here arises the importance of roadability, as well as of adequate and reliable braking.

To the particular safety features mentioned might be added, if we look backward a moment, the electric starter, four-wheel brakes and similar advancements which General Motors first adopted as a quantity producer. Thus we see demonstrated that in General Motors engineering down through the years prime consideration has been given to safety. And others have made important contributions as well.

The motor car itself, however, is only a part of our problem. Much progress has been made in advancing the safety of the highway construction-wise, in line with continually increasing traffic congestion. Acknowledgment is due those also who have contributed in the way of enforcement and better traffic planning. But, still more adequate highways are essential if we are to utilize to the utmost this young and virile instrument of transportation, the modern car.

Now, as to the driver and the pedestrian. General Motors believes this to be a problem not only of education but of *continuous* education.

In that belief it pledges cooperation with all agencies whose duties or energies are directed toward highway safety. It proposes to make a tangible contribution by organizing, in a definite and aggressive way, to instill "Safety First" into the minds of those who purchase its products; to cooperate with all enforcement authorities, with respect to the problems of traffic control; to cooperate in devising ways and means of insuring safety maintenance; to promote new and better plans of regulation; to impress the importance of the problem upon our youth, and to cooperate in other ways, directly or indirectly, that offer promise of reducing the increasing highway toll that is being levied upon the community.

General Motors is grateful for the endorsement of its 1935 products, which has made possible a world production of more than 1,500,000 vehicles during the year. The contribution thus made in an important aggregate of employment has accelerated the normal processes of industrial recovery. We shall strive to make a still more important contribution in the year ahead.

Alfred P. Sloan Jr.

PRESIDENT

Answers to Inquiries

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AMERICAN METAL CO., LTD.

I have 200 shares of American Metal common bought at 19. It seems to me this company stands to benefit from rising commodity prices, renewed inflation talk, and in the event of war. I wonder, though, if these factors are discounted in current prices, or if higher prices are in prospect. —M. C. V., Utica, N. Y.

There have been numerous favorable developments in the affairs of American Metal Co., Ltd., in the past few weeks. On October 11, last, the company paid off the balance remaining due on the bank loans of $10,000,000 which had been raised to aid in the maturity of a 5½% note issue due April 1, 1934. The bank loans had been progressively reduced to $2,750,000 and this amount was paid off from the company's own funds, leaving no floating debt. The funded debt is almost negligible, consisting of only $263,000 of 5% bonds of a subsidiary and the $6 cumulative preferred stock has been reduced to 666,670 shares. The payment of a dividend of $2 a share on the preferred last July, on account of accumulations, reduced the arrears to $22 a share on the preferred, which is another favorable event for the common stock. The distribution mentioned was the first since September, 1931. Earnings have also started upward, results for the first six months of this year, as compiled from the company's quarterly reports, showing net profit of $285,884 after charges and taxes, which was equal to 7 cents a share of common after setting aside an allowance for the preferred dividend requirements for the period. This compared with a net loss of $214,194 for the first six months of 1934. American Metal has been reducing and consolidating its holdings in foreign mining enterprises. Its entire holdings in Ontario Refining Co., Ltd., have been sold to International Nickel. Higher prices and increased demand for lead and zinc have been important factors in the improvement in earnings of American Metal, while the rise in the price of silver has made it possible to resume production at a gold and silver mining property owned by the company in the southeastern part of Mexico as well as in its Presidio Mine in Texas, a silver producer. The outlook for continued high prices for silver and gold and a longer term likelihood of higher prices for copper, as well as inflation possibilities and the more remote possibility of war, all point to the advisability of maintaining a speculative position in the common shares.

COLLINS & AIKMAN CORP.

I am indeed pleased you advised me to hold Collins & Aikman when it was selling around 11. If it wouldn't be imposing too much, would you comment on its outlook from here on.—D. S. E., Plainfield, N. J.

For the twenty-six weeks ended August 31, 1935, Collins & Aikman Corp. reported a net profit of $1,755,739, which after charges and dividend requirements on the 7% preferred stock, was equal to $2.73 per share on the common. This compared with a net loss of $28,986 after taxes and charges for the corresponding period a year before, graphically illustrating the improvement in automobile output and its effect upon this leading manufacturer of upholstery fabrics. Financial condition is satisfactory, according to the latest available balance sheet, which shows current assets nearly ten times current liabilities, and working capital of nearly $7,000,000. Aside from automobile upholstery, in which field Collins & Aikman is dominant, producing approximately three-quarters of the entire needs of the industry, the company has some diversification through the manufacture of carpetings, furniture upholstery fabrics and cloth for the cloak and suit trade. The outlook in those lines is satisfactory, reflecting generally improved public purchasing power. The plans of the automobile industry to stabilize production on a more even basis throughout the year should be beneficial to Collins & Aikman through the removal of the former seasonal factors, pointing to more consistent interim earnings and simplifying factory inventory problems. The wages of the factory employees have been increased and hours have been stabilized, giving better results in that connection than those which prevailed under the

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New York Stock Exchange

Rails

	1933 High	1933 Low	1934 High	1934 Low	1935 High	1935 Low	Last Sale 10/30/35	Div'd $ Per Share
A								
Atchison	80 1/8	34 5/8	73 3/4	45 1/4	57 1/8	35 3/4	48	†2
Atlantic Coast Line	59	16 1/2	54 1/4	24 1/2	37 1/4	19 1/2	25	..
B								
Baltimore & Ohio	37 7/8	8 1/4	34 1/2	12 3/4	18	7 1/2	14 5/8	..
Bangor & Aroostook	41 3/4	20	46 1/8	35 1/2	49 1/2	36 1/8	44 3/8	2.50
Brooklyn-Manhattan Transit	41 1/4	21 3/4	44 7/8	28 1/4	46 3/4	36 1/2	42 1/8	3
C								
Canadian Pacific	20 7/8	7 1/2	18 1/4	10 7/8	13 3/4	8 5/8	9 1/8	..
Chesapeake & Ohio	49 1/4	24 5/8	48 5/8	39 1/2	47 1/2	37 1/8	44 3/4	2.80
C. M. & St. Paul & Pacific	11 3/4	1	8 1/2	2	3	1/4	1	..
Chicago & Northwestern	16	1 1/4	15	3 1/2	5 5/8	1 3/8	2	..
Chicago, Rock Island & Pacific	10 1/8	2	6 1/4	1 3/8	2 5/8	3/4	1 1/4	..
D								
Delaware & Hudson	93 3/4	37 5/8	73 1/2	35	43 1/2	23 1/2	33 1/2	..
Delaware, Lack. & Western	46	17 1/4	33 3/4	14	19 1/8	11	14 1/2	..
E								
Erie R. R.	25 3/4	3 3/4	24 7/8	9 3/8	14	7 1/8	10 3/8	..
G								
Great Northern Pfd	33 3/4	4 5/8	32 1/2	12 1/4	27 3/4	9 5/8	26 1/2	..
H								
Hudson & Manhattan	19	6 1/2	12 1/8	4	5 1/2	2 3/4	3 3/8	..
I								
Illinois Central	50 3/4	8 1/2	38 7/8	13 5/8	17 3/4	9 1/2	15	..
Interborough Rapid Transit	13 3/4	4 1/8	17 1/2	5 1/4	23 5/8	8 3/4	20 1/4	..
K								
Kansas City Southern	24 7/8	6 1/2	19 3/4	6 5/8	8 3/4	3 3/4	6 1/4	..
L								
Lehigh Valley	27 3/4	8 5/8	21 1/4	9 1/2	11 1/2	5	8 5/8	..
Louisville & Nashville	67 1/2	21 1/4	62 1/2	37 3/4	47 1/2	34	45 7/8	†2.50
M								
Mo., Kansas & Texas	17 1/8	5 3/4	14 7/8	4 3/8	6 1/4	2 1/2	4 3/8	..
Missouri Pacific	10 1/4	1 1/8	6	1 1/2	3	1	1 1/4	..
N								
New York Central	58 1/2	14	45 1/4	18 3/8	27 1/4	12 1/4	22 1/2	..
N. Y., Chic. & St. Louis	27 5/8	2 1/8	26 7/8	9	13	6	10 3/8	..
N. Y., N. H. & Hartford	34 7/8	11 1/8	24 1/8	6	8 1/2	2 5/8	3 1/8	..
N. Y., Ontario & Western	15	7 1/2	11 5/8	4 1/2	6	2 5/8	3 7/8	..
Norfolk & Western	177	111 1/2	187	161	196 1/2	158	195	*8
Northern Pacific	34 7/8	9 5/8	36 1/4	14 1/2	21 7/8	13 1/8	16 7/8	..
P								
Pennsylvania	42 1/4	13 3/4	39 1/8	20 1/8	30 1/8	17 1/4	27 1/4	†50
Pere Marquette	37	3 7/8	38	12	25	9 1/4	22 3/4	..
Pittsburgh & W. Va	35 3/4	6 1/2	27	10	17 1/4	6 7/8	15	..
R								
Reading	62 1/2	23 1/2	56 3/8	35 1/8	43 1/8	29 7/8	35	2
S								
St. Louis-San Fran	9	7/8	4 5/8	1 1/8	2	3/4	1	..
Southern Pacific	38 3/4	11 1/8	33 3/4	14 7/8	21 1/2	12 3/4	18	..
Southern Railway	36	4 1/8	36 1/2	11 1/2	16 1/2	5 1/2	9 1/8	..
T								
Texas & Pacific	43	15	43 1/4	13 1/2	25 3/4	14	18	..
U								
Union Pacific	132	61 1/4	133 7/8	90	111 1/2	82 1/2	93 1/2	6
W								
Western Maryland	16	4	17 1/4	7 1/8	9 7/8	5 1/2	7 3/4	..
Western Pacific	9 1/2	1	8 1/2	2 5/8	3 3/8	1 1/8	1 3/4	..

Industrials and Miscellaneous

	1933 High	1933 Low	1934 High	1934 Low	1935 High	1935 Low	Last Sale 10/30/35	Div'd $ Per Share
A								
Adams-Millis Corp	21 5/8	8	34 7/8	16	35 3/4	28	34	2
Air Reduction, Inc.	112	47 1/2	113	91 3/4	165	104 3/8	165	*3
Alaska Juneau	33	11 1/8	23 7/8	16 5/8	20 1/8	13 1/4	13 7/8	*.60
Allied Chemical & Dye	152	70 3/4	160 3/4	115 1/8	173	125	165 1/2	6
Allis Chalmers Mfg	26 3/4	6	23 3/8	10 3/8	37 7/8	12	34 7/8	..
Alpha Portland Cement	24	5 3/4	20 1/8	11 1/2	20 1/4	14	17	1
Amerada Corp	47 5/8	18 1/2	55 5/8	39	76	48 1/2	74	2
Amer. Agric. Chemical (Del.)	35	7 1/4	48	25 1/4	57 3/4	41 1/2	54 1/4	3
American Bank Note	28 1/2	8	25 1/4	11 1/2	37 1/2	13 1/2	36	..
Amer. Brake Shoe & Fdy	42 1/2	9 1/8	38	19 1/2	38 1/8	21	36	1
American Can	100 1/2	49 1/2	114 3/4	90 1/4	149 5/8	110	143	*4
Amer. Car & Fdy	39 3/4	6 1/8	33 7/8	12	25 3/8	10	23	..
American Chicle	51 1/4	34	70 5/8	46 1/4	96	66	91 3/4	*3
American & Foreign Power	19 5/8	3 7/8	13 3/4	3 7/8	9 1/4	2	6 3/4	..
Amer. International Corp	15 1/8	4 1/4	11	4 3/4	9 7/8	4 1/2	9 1/8	..
Amer. Power & Light	19 7/8	4	12 1/4	3	9 1/2	1 1/2	8 1/8	..
Amer. Radiator & S. S.	19	4 5/8	17 5/8	10	18 3/4	10 1/2	17 7/8	..
Amer. Rolling Mill	31 7/8	5 3/4	28 1/4	13 1/2	29 1/4	15 3/4	28 1/8	†30
Amer. Smelting & Refining	53 1/2	10 3/4	51 1/4	30 1/4	59 7/8	31 5/8	58 7/8	..
Amer. Steel Foundries	27	4 5/8	26 1/2	10 1/8	20 1/4	12	19 3/8	..
Amer. Sugar Refining	74	21 1/2	72	46	70 1/2	50 5/8	53 3/4	2
Amer. Tel. & Tel	134 3/4	86 1/2	125 1/4	100 1/8	146	98 7/8	142	9
Amer. Tob. B	94 3/4	50 3/4	89	67	105 1/2	74 3/4	102 3/4	5
Amer. Water Works & Elec	43 1/4	10 7/8	27 5/8	12 5/8	19 3/4	7 1/8	19	..
Amer. Woolen Pfd	67 1/2	22 5/8	83 3/4	36	64 1/4	35 1/2	62	..
Anaconda Copper Mining	22 7/8	5	17 3/4	10	23 1/8	8	20 7/8	..
Amour Co. of Ill	....	....	6 3/4	3 1/2	6 1/8	3 1/4	4 3/8	..
Atlantic Refining	32 1/2	12 3/8	35 1/4	21 1/2	28	20 1/2	22 1/4	1
Auburn Auto	84 1/4	31	57 3/8	16 1/2	45 1/2	15	41 1/2	..
Aviation Corp. Del	16 3/8	5 1/2	10 3/4	3 3/4	4 1/4	2 3/4	3 1/2	..
B								
Baldwin Loco. Works	17 5/8	3 1/2	16	4 1/2	6 5/8	1 1/2	3 1/8	..
Bayuk Cigar	52 1/2	3 1/4	45 3/4	23	51 1/8	37 1/2	50 1/2	*1
Beatrice Creamery	27	7	19 3/4	10 1/4	19	14	16	†.50
Beech-Nut Packing	70 1/2	45	76 5/8	58	95	72	92 1/8	*3
Bendix Aviation	21 1/4	6 1/8	23 7/8	9 3/4	24 1/2	11 7/8	21 3/8	..

Price Range of Active Stocks

Industrials and Miscellaneous *(Continued)*

	1933 High	1933 Low	1934 High	1934 Low	1935 High	1935 Low	Last Sale 10/30/35	Div'd $ Per Share
B								
Best & Co	33⅛	9	40	26	56⅞	34	55¾	2
Bethlehem Steel Corp	49¼	10⅛	49½	24⅛	41½	21⅝	38½	..
Bohn Aluminum	58½	9½	68¾	44½	59⅞	39⅝	47⅝	3
Borden Company	37⅜	18	28¼	19⅞	26⅝	21	25¼	1.60
Borg Warner	22¼	5½	31⅜	16⅛	65¼	28¼	60	2
Briggs Mfg	14⅝	2⅝	28⅜	12	55⅜	24½	52⅞	*2
Bristol-Meyers	40½	25	37½	26	41¾	30⅜	41¼	*2
Burroughs Adding Machine	20⅞	6⅛	19⅜	10½	26⅛	13¼	25⅞	*.60
Byers & Co. (A. M.)	43¼	8½	32¾	13¾	20⅝	11⅜	17⅜	..
C								
California Packing	34¾	7¾	44⅜	18¾	42½	30½	34½	1.50
Canada Dry Ginger Ale	41¼	7½	29½	12½	16⅝	8⅛	12¾	..
Case, J. L.	103½	30½	86¾	35	104¾	45¾	100	..
Caterpillar Tractor	29¾	5½	38¾	23	58	36½	55⅞	*1
Celanese Corp	58⅞	4½	44⅞	17⅛	35⅜	19½	28¾	..
Cerro de Pasco Copper	44¾	5⅞	44½	30¼	63¾	38⅝	59⅞	4
Chesapeake Corp	52½	14⅞	48⅞	34	47¾	36	45½	3
Chrysler Corp	57⅝	7¾	60⅜	29¼	88¾	31	84	*1
Coca-Cola Co	105	73½	161½	95¼	278	161⅞	270	8
Colgate-Palmolive-Peet	22⅜	7	18⅛	9⅜	19¼	15⅛	18	*.50
Columbian Carbon	71¼	23⅛	77¼	58	98	67	93½	4
Colum. Gas & Elec	28⅛	9	19¼	6⅝	15⅜	3⅜	15⅜	†.20
Commercial Credit	19¼	4	40¼	18⅝	58	39½	49¼	2.50
Comm. Inv. Trust	43½	18	61	35¾	72	56¼	60	*2.80
Commercial Solvents	57¼	9	36¾	15¾	23⅞	16½	17⅝	*.60
Congoleum-Nairn	27⅝	7⅜	35⅜	22	41½	27	40½	1.60
Consolidated Gas of N. Y.	64⅛	34	47⅜	18½	34¼	15⅞	29¾	1
Consol. Oil	15¾	5	14¼	7¼	10½	6½	9	†.25
Container Corp. "A"	10¼	1⅛	13¾	6⅛	17¾	8¾	17	..
Continental Can, Inc	78⅜	35¼	64½	56¾	95¾	62¾	93⅛	3
Continental Insurance	36½	10½	36¼	23⅜	42⅜	28⅞	41½	*1.20
Continental Oil	19⅝	4⅞	22¾	15¾	24¼	15⅛	23¼	†62½
Corn Products Refining	90⅝	45⅜	84½	55½	78⅜	60	67½	3
Crown Cork & Seal	65	14¼	36¼	18¾	42¼	23½	41¼	1
Cudahy Packing	59½	20¾	52⅝	37	47½	39¼	41	2.50
Cutler-Hammer, Inc	21	4¼	21½	11	41	16	38½	..
D								
Deere & Co	49	5¾	34⅛	10⅛	54⅞	22¾	54⅞	..
Diamond Match	29½	17½	28½	21	40¾	26½	38⅛	*1.50
Dome Mines	39½	12	46¼	32	43½	34⅛	38¼	*2
Douglas Aircraft	18¼	10¼	28½	14¼	35	17½	32½	†.75
Du Pont de Nemours	96⅜	32⅛	103⅞	80	136¾	86⅝	134	3.60
E								
Eastman Kodak Co	89¾	46	116½	79	166	110½	166	*5
Electric Auto Lite	27½	10	31⅜	15	38⅜	19⅜	35¾	†30
Elec. Power & Light	15⅜	3⅛	9⅝	2¼	7½	1⅛	5⅞	..
Electric Storage Battery	54	21	52	34	52⅛	39	51⅛	2.25
F								
Fairbanks, Morse & Co	11¼	2½	18¾	7	26½	17	24	..
Firestone Tire & Rubber	31½	9⅛	25¼	13⅛	18⅛	13⅛	15½	.40
First National Stores	70¾	43	69¼	53	58⅞	45	47	2.50
Foster Wheeler Corp	23	4½	22	8½	19¼	9⅞	19	..
Freeport Texas Co	49⅜	16⅛	50⅜	21½	28½	17¼	27¼	1
G								
General Amer. Transpt	43¼	13¾	43⅝	30	44	32⅝	42	1.75
General Baking	20⅞	10½	14⅜	6½	13⅜	7⅜	12	.60
General Electric	30¼	10½	25¼	16⅞	36⅛	20½	35½	.80
General Foods	39⅞	21	36⅞	28	37½	30	32¾	1.80
General Mills	71	35½	64½	51	72½	59⅞	70⅞	3
General Motors Corp	35¾	10	42	24⅝	54¼	26⅝	51¾	*2
General Railway Signal	49½	13¼	45¾	23½	35¼	15⅝	34⅞	1
General Refractories	19¾	2½	23⅜	10⅛	26¾	16¾	25½	..
Gillette Safety Razor	20¼	7⅝	14⅞	8½	19½	12	17	1
Glidden Co	20	3¾	28⅜	15⅝	38⅛	23⅜	37¼	*1
Gold Dust Corp	27⅜	12	23	16	18	14⅜	17	1.20
Goodrich Co. (B. F.)	21½	3	18	8	11⅞	7½	10	..
Goodyear Tire & Rubber	47½	9¼	41⅜	18½	26⅞	15¾	18⅞	..
Great Western Sugar	41⅞	7	35¼	25	32⅜	26⅝	28½	2.40
H								
Hercules Powder Co	68⅝	15	81⅝	59	90	71	87¼	*3
Homestake Mining	373	145	430⅛	310	412	338	392	*12
Hudson Motor Car	16⅜	3	24½	6⅛	17½	6¼	15¾	..
Hupp Motor Car	7¾	1⅝	7¼	1⅞	3⅞	¾	3	..
I								
Industrial Rayon	....	....	32¼	19⅜	36⅜	23½	33½	1.68
Ingersoll-Rand	78	19⅛	73¾	49½	114	60½	111	2
International Business Machines	153¼	75¾	164	131	187	149¼	181	*6
Inter. Cement	40	6⅛	37¾	18⅜	33	22⅞	29	1
Inter. Harvester	46	13⅝	46⅞	23¼	60½	34⅛	58	.60
Inter. Nickel	23¼	6¾	29¼	21	31¾	22¼	31¾	.80
Inter. Tel. & Tel.	21¾	5⅛	17¾	7½	12⅝	5⅝	10½	..
J								
Jewel Tea Co., Inc	45	23	57½	33	67	49	54½	3
Johns-Manville	63½	12¼	66⅜	39	88½	38½	86	†.50
K								
Kelvinator	15⅝	3⅛	21¼	11⅝	18¼	10¼	13⅝	*.50
Kennecott Copper	26	7⅜	23⅛	16	26½	13¾	26¼	.60
Kroger Grocery & Baking	35⅝	14½	33⅝	23¼	32⅛	22¼	26¾	1.60
L								
Lambert Co	41⅛	19⅜	31¾	22¼	28½	21⅜	23	2
Lehman Corp	79⅜	37½	78	68¼	95⅜	67⅛	91½	*2.40
Libbey-Owens-Ford	37⅜	4¾	43⅞	22½	49¼	21½	46¾	1.20
Liggett & Myers Tob. B	99⅜	49¼	111¼	74½	122	93¾	115½	*4
Loew's, Inc	36½	8½	37	20⅜	50	31¼	48¼	2
Loose-Wiles Biscuit	44¾	19¼	44¾	33¼	41⅝	33	37½	2
Lorillard	25¼	10⅜	22½	15¾	26⅛	18½	25⅝	*1.20
M								
Mack Truck, Inc	46⅜	13½	41¾	22	28⅛	18⅝	24	1
Macy (R. H.)	65¾	24¼	62⅛	35¼	55⅛	30½	53½	2

Dividends and Interest

New York Stock Exchange Price Range of Active Stocks

Industrials and Miscellaneous (*Continued*)

	1933		1934		1935		Last Sale	Div'd $ Per
	High	Low	High	Low	High	Low	10/30/35	Share
M								
Mathieson Alkali	46⅝	14	40¾	23½	33¾	23¾	32⅞	1½
May Dept. Stores	33	9¾	45¾	30	54⅝	35⅞	53¼	1.60
McIntyre, Porcupine	48⅜	18	50½	30½	45⅝	34¾	34¾	2
McKeesport Tin Plate	95¾	44⅛	95⅛	79	127½	90½	126	4
Mesta Machine Co	21	7	34¾	20⅛	38⅛	24⅛	37⅞	2
Monsanto Chemical	83	25	96½	39	94½	55	91⅝	*1
Montgomery Ward & Co	28⅞	8⅝	35⅝	20	37¾	21¾	33	..
N								
Nash Motor Co	27	11⅛	32¼	12⅝	19½	11	17	1
National Biscuit	60⅝	31½	49½	25⅞	34¼	22¼	33⅝	1.60
National Cash Register	23⅝	5⅛	23⅝	12	20⅛	13½	18½	.50
National Dairy Products	25¾	10½	18¾	13	18¼	12⅞	17⅝	1.20
National Distillers	35¼	20⅞	31⅝	16	33⅞	23⅛	31⅞	2
National Power & Light	20½	6⅞	15½	6⅝	14⅜	4⅞	10⅜	.60
National Steel	55⅛	15	58¼	34½	74¼	40⅜	72	*1
N. Y. Air Brake	23½	6⅛	28¾	11½	30¼	18½	30	..
North American Co	36½	12½	25¼	10¼	25⅝	9	24¾	1
O								
Otis Elevator	25¼	10⅛	19⅜	12½	22	11⅛	19⅜	.60
Owens Ill. Glass	96¾	31½	94	60	122¾	80	119½	4
P								
Pacific Gas & Electric	31⅞	15	23½	12⅜	29	13⅛	28½	1⅓
Pacific Lighting	43⅜	22	37	20¾	51¾	19	50¼	2.40
Packard Motor Car	6⅞	1¾	6⅝	2¾	7½	3½	6¼	..
Paramount Pictures	..	..	..	..	12	8	9⅝	..
Penney (J. C.)	56	19¼	74¼	51½	84¾	57¼	80	2
Penick & Ford	60¾	25½	67	44⅝	81	64½	67¾	3
Phelps Dodge Corp	18⅞	4½	18⅞	13¼	26⅛	12¾	24½	†.25
Phillips Petroleum	18¾	4¾	20¾	13⅜	34¾	13¾	34⅛	*1
Pillsbury Flour Mills	22½	9½	34¾	18½	37½	31	36¾	1.60
Procter & Gamble	47½	19⅝	44⅜	33⅛	53¾	42⅜	50⅝	*1.50
Public Service of N. J.	57⅛	32⅝	45	25	45⅜	20⅜	44	2.40
Pullman, Inc	58⅛	18	59⅜	35¼	52⅞	29½	36¾	1.50
R								
Radio Corp. of America	12¼	3	9⅛	4½	8½	4	7¾	..
Radio-Keith-Orpheum	5¾	1	4¼	1½	6	1¼	4⅞	..
Raybestos-Manhattan	20⅝	5	23	14½	26½	16½	24⅞	1
Remington Rand	11¼	2½	13⅜	6	15⅛	7	14¼	..
Republic Steel	23	4	25¾	10½	19⅞	9	17½	..
Reynolds (R. J.) Tob. Cl. B	54¼	26½	53¾	39¾	57	43⅛	56¾	3
S								
Safeway Stores	62⅜	28	57	38¼	46	32⅛	34⅛	2
Schenley Distillers	47	22	38⅞	17⅛	51⅞	22	50⅜	..
Sears, Roebuck & Co	47	12½	51¼	31	61½	31	59	†.75
Servel, Inc	7½	1½	9	4⅜	12¼	7⅝	11⅛	†.12½
Shattuck (F. G.)	13¼	5¾	13⅞	6¾	10¼	7¼	9⅛	.25
Shell Union Oil	11⅝	4	11½	6	11½	5½	11½	..
Socony-Vacuum Corp	17	6	19⅞	12½	15¾	10⅝	12⅛	.30
So. Cal. Edison	28	14⅛	22⅛	10⅛	26¾	10⅝	25⅞	1.50
Spiegel May Stern Co	21½	1	76¾	64	84	43⅞	76½	3
Standard Brands	37⅝	13¾	25¼	17¼	19⅛	12½	14½	.80
Standard Oil of Calif	45	19½	42⅞	26½	38⅞	27¾	36⅜	1
Standard Oil of Ind	....	....	32¾	23¼	28⅜	23	27⅝	1
Standard Oil of N. J.	47½	22¾	50⅛	39¼	50½	35¾	48⅜	*1
Sterling Products	63	45¾	66½	47¼	67⅞	58¾	66	3.80
Stewart-Warner	11½	2½	10⅝	4½	18⅝	6⅝	17⅞	*50
Stone & Webster	19¼	5½	13¼	3⅞	11¾	2½	11⅛	..
Sun Oil Co	59	35	74¼	51½	75½	60½	72½	*1
T								
Texas Corp	30⅛	10¾	29⅜	19⅝	23¾	16½	22½	1
Texas Gulf Sulphur	45¼	15¼	43¼	30	36⅜	28⅜	31¼	2
Tide Water Assoc. Oil	11¾	3⅛	14⅜	8	12	7⅝	10½	..
Timken Roller Bearing	35½	13¾	41	24	64⅝	28⅜	60	*1
Tri-Continental Corp	8¾	2¾	6¾	3	7¼	1⅞	7	..
U								
Underwood-Elliott-Fisher	39½	9¼	58⅞	36	82¼	53¾	80	2
Union Carbide & Carbon	51⅞	19¾	50⅞	35⅞	72½	44	70½	1.60
Union Oil of Cal	23⅜	8½	20½	11½	20⅜	14¾	20⅜	1
United Aircraft	....	....	15¼	8⅛	21⅜	9⅞	20⅛	..
United Carbon	38	10¼	50⅜	35	71½	46	70⅛	2.40
United Corp	14½	4	8⅞	2⅛	6⅝	1½	6⅛	..
United Corp. Pfd	40⅞	22⅛	37⅞	21¼	44½	20¾	42⅜	3
United Fruit	68	23¼	77	59	92¾	60½	68⅞	3
United Gas Imp	25	13⅞	20⅛	11½	18¼	9¼	17½	1
U. S. Gypsum Co	53½	18	51¼	34¼	84	40½	84	*1
U. S. Industrial Alcohol	94	13½	64¾	32	49	35⅛	45⅝	2
U. S. Pipe & Fdy	22⅛	6⅛	33	15½	22	14¾	19⅛	.50
U. S. Rubber	25	2⅞	24	11	17¼	9⅛	13¾	..
U. S. Smelting, Ref. & Mining	105⅝	13½	141	96⅝	124½	92	95½	†8
U. S. Steel Corp	67½	23⅜	59⅞	29⅜	48¾	27½	45½	..
U. S. Steel Pfd	105½	53	99½	67¼	113½	73⅝	109	2
V								
Vanadium Corp	36¼	7⅝	31¾	14	21¾	11¼	17⅞	..
W								
Warner Brothers Pictures	9⅛	1	8¼	2¾	8½	2¼	7½	..
Western Union Tel	77¼	17¼	66⅞	29½	64⅜	20⅝	61	..
Westinghouse Air Brake	35⅝	11¾	36	15⅞	28⅛	18	26½	.50
Westinghouse Elec. & Mfg.	58¾	19⅜	47¼	27⅞	91¾	32⅝	89	†1
Woolworth Co. (F. W.)	50⅞	25⅛	55¼	41¼	65¼	51	57⅞	2.40
Worthington Pump & Mach	39⅞	8	31⅞	13½	21½	11¾	20½	..
Wrigley (Wm., Jr.)	57¼	34½	76	54½	82¾	73¾	79	*3

* Including extra. † Paid this year.

Answers to Inquiries

(Continued from page 100)

N R A, while the company has had the benefit of better utilization of its machinery since those restrictions were removed. With the earnings recently achieved, and the strong financial position of the enterprise, the common shares appear to be a step nearer to the possibility of dividends and meanwhile they continue to offer speculative attraction so that further retention of your holdings is justified.

INTERNATIONAL BUSINESS MACHINES CORP.

Do you think International Business Machines Corp.'s earnings warrant current high prices for the stock? Do you foresee still higher prices? Do you believe increased dividends are in order?—H. J. L., Fargo, N. D.

Maintaining an earnings record head and shoulders above that of the vast majority of industrial organizations, the report of International Business Machines Corp. for the nine months ended September 30, 1935, reveals net income of $5,304,844, equivalent to $7.39 per share on the capital stock, against $5,053,514, or $7.18 for the like interval of the previous year. Thus, indications are that earnings for the full year will approximate $10 per share, or not far below those recorded in the banner year 1931, when the equivalent of $11.49 per share was shown. The market appraisal accorded this company's stock is based largely upon the record of the organization throughout the depression years when, despite restricted buying power of its customers, worth while profits were recorded in every year, the poorest one having been 1933, when the equivalent of $8.16 a share was shown. The organization's activities are well diversified as to types of products manufactured, while almost every major industry is a potential customer for the electric recording and tabulating machines manufactured. The bulk of the company's income is derived from rentals from machines leased to others, which accounts in no small measure for the earnings stability recorded. The concern maintains an active research department which is constantly endeavoring to develop and perfect numerous types of specialty recording machines for which there is an almost unlimited field. Reflecting improvement in the general business situation, it is understood that the company's business during August and September of the current year was the largest ever recorded in its history. Although the company formerly manufactured scales, slicing machines, meat and coffee grinders, etc., this division was sold to the Hobart Manufacturing Co. in 1934 for a stock interest in the latter organization. The company is subject to a minimum of competition since its numerous innovations are protected by patents, and the cost of manufacture and technical skill required are difficult factors for others to overcome. Financially the organization is in good shape, and with only about 717,000 shares of stock outstanding, maintenance of the regular $6 annual rate, in addition to stock dividends from time to time, seems assured. As a matter of fact, indicated earnings would seem to justify the expectation of increased payments later on. Thus, the shares seem well situated to participate in any further advance of the general market and we see no reason for you to liquidate your holdings now.

ELECTRIC STORAGE BATTERY CO.

Electric Storage Battery has not shared in the recent improvement in automotive issues to the same extent as have other accessories. Do you believe it is now behind the market? Do you favor the continued retention of shares bought at 43¼?—B. N. C., Richmond, Va.

Increased production of new automobiles has not been as strongly reflected in the earnings and market value of Electric Storage Battery as it has in other accessory companies, because of the severe competition and higher operating costs to which the company has been subjected. However, the company has maintained its commanding trade position and is reported to have increased its exceptionally strong and liquid financial condition. Business on hand at the end of the first quarter of this year, the latest available report, was about $1,250,000 more than at the corresponding period a year before. Results of automotive sales for the balance of this year should be satisfactory because of the earlier announcements of new models of automobiles and the consequent increase in production in the last quarter, so that earnings results for this year should compare favorably with 1934. The demand from sources other than the automotive trade should also improve as general business recovery moves ahead, particularly from the railroad and air-conditioning industries as well as naval construction. The policy of the company in paying out substantially all of its earnings in the form of dividends indicates the likelihood of the continuation of the current rate, while the settlement of a tax refund suit against the Government, involving something over $1,300,000 may be expected to result in a substantial extra dividend in the near future. We regard the outlook as sufficiently favorable to warrant the maintenance of your long position.

SHARP & DOHME, INC.

I have 300 shares of Sharp & Dohme common purchased at 3 and under, which I believe offer long-term possibilities. But with the preferred shares selling down near the low for the year, I am undecided about my prospects. Will you advise me? —R. S. P., Chicago, Ill.

Sharp & Dohme, Inc., has long occupied a leading position in the drug products field, although it has catered chiefly to physicians and hospitals, the appeal being quality. Recognizing the limited possibilities for growth of its so-called "ethical" compounds, the company during recent years developed several new products which were offered to the public. These products include S.T. 37 antiseptic and tooth paste, Caprokol and Di-hydranol. The company has thus entered a highly competitive field, which necessitates persistent advertising in order to sustain sales volume. The report of the company for the six months ended June 30, 1935, reveals net income of $402,546, equivalent to $1.75 a share on the $3.50 preferred stock, leaving no earnings available for the common. This compared with $526,045, or $2.30 a share on the $3.50 preferred and 16 cents a share on the common for the like interval of the preceding year. With preferred dividend requirements just covered in the first half of the year, and with the second half usually less favorable, some question naturally exists as to continuance of regular payments on the preferred. However, the financial condition of the organization would permit continuance of such payments for some time ahead even though not fully covered by earnings. At the close of 1934, the balance sheet revealed total current assets of $7,382,002, including cash and equivalent alone of more than $2,400,000, and current indebtedness of only $317,000. The organization's capitalization is conservative, being comprised of 229,085 shares of $3.50 preference stock and 776,627 shares of common, there being no funded debt or bank loans outstanding. Although there is little in the near term outlook to indicate any material lessening in the competition currently being encountered by the organization, we feel that improving public purchasing power should ultimately enable the company to show earnings sufficient to support higher share prices. Since you apparently purchased the stock with a view to long term market possibilities,

therefore, we see no reason to disturb your holdings now, providing, of course, that you are willing to disregard transitory fluctuations.

INTERNATIONAL HARVESTER CO.

I understand International Harvester may earn $2 this year as compared with a deficit of 42 cents a share last year. Do you believe this earnings improvement is permanent? Do you believe an early increase in the dividend is possible? Would you continue to hold 175 shares averaging 53½?—U. I. A., Duluth, Minn.

While it is difficult to state at this time whether earnings for International Harvester Co. will amount to the figure which you mention of $2 per share this year, nevertheless, at current levels, we see no need for hasty liquidation of shares now held in spite of the sizable profits you have in them. You appreciate that earnings for this company are reported but once a year and as to whether or not they will be sufficient to warrant a further increase in the dividend is decidedly moot at this time. In 1934, International Harvester reported a net income of $3,948,637, which compares favorably with the operating deficit of close to $2,000,000 in 1933. At the year-end, cash, marketable securities and Government bonds alone were equal to almost three times current liabilities of $22,386,818, when current assets were reported at $225,569,329. Recently, indications point to an increase in the total volume of business for this year and the demand for trucks in the 1½ ton class for both farm and commercial use. When consideration is given to the fact that the company benefits from a world-wide distributing system of its products, which include in addition to industrial tractors and motor trucks, as well as farm operating equipment, gasoline and kerosene engines, the enormity of the pent up long term demand is more evident. Then too, the company produces very largely the bulk of its own raw materials, so that the outlook for the company's business as a whole is decidedly optimistic. As a matter of fact in anticipation of this outlook the management only recently authorized the immediate expenditure of $2,250,000 on improvements to the South Chicago plants of its subsidiary, the Wisconsin Steel Works.

MAY DEPARTMENT STORES CO.

I bought 100 shares of May Department Stores at 41 on a recommendation in your Magazine. As department stores are now approaching their best season, it may be that "May" might now over-discount near-term prospects. Is this so, or do you look for further advances?—W. J. S., New York City.

You may be sure we can appreciate your viewpoint, although at the present time we do not feel that the price of May Department Stores stock over-discounts near and medium term prospects. Although the latest earnings figures available are for the year ended January 31, 1935, at that time the net amounted to $2.68 a share on the common stock against $2.36 for the previous year and currently the income of this well managed chain is steadily improving. May Department Stores has rendered a very favorable account of itself during recent years, and was able, thanks to its efficient management, to go through the entire depression without getting into the "red" and in addition dividends were maintained uninterruptedly. The chain operates six department stores located in Akron, Baltimore, Cleveland, Denver, Los Angeles and Buffalo, and has benefited very materially from the substantial growth in population of those cities. While it is true that currently earnings are far from the high recorded in the 1929-1930 period, nevertheless, the company's strong recuperative earnings powers have been demonstrated and with further increases later on in public spending power as industrial recovery continues, earnings should do a great deal better. As of January 31 of this year, current assets totalled $32,559,817 and included cash and Government obligations of $10,339,359. Current indebtedness at that time stood at $4,999,927. Since then the company has redeemed $1,967,000 principal amount of its indebtedness represented by mortgages executed by its subsidiary real estate holding company on properties leased to the parent company. Long pull holdings, in our opinion, seem worth while.

BORDEN CO.

Judging by the recent market improvement in Borden Co., the outlook must be brightening. Is it now overcoming the unsatisfactory price situation on its products which was said to be holding it back? What do you see in the way of further improvement?—T. R. H., Wilmington, Del.

Although interim earnings of Borden are not reported, we do feel that the dairy industry is improving. Consequently, the shares of Borden Co. around current levels undoubtedly will appeal to the individual who is looking for a worth while yield combined with possibilities for moderate appreciation over the long term period. The actual net income in 1934 was $4,490,045 equivalent to $1.02 a share for each of the 4,396,704 capital shares and compares with $1.06 a share earned in 1933, $1.71 in 1932 and $3.82 in 1931. From the standpoint of liquid finances, on the other hand, this company is especially well situated. At the year-end, including cash and marketable securities of more than $24,000,000, current assets amounted to $56,561,010 or 4.25 times current liabilities. In addition, the company has no funded debt and the company's excellent financial position has enabled the directors to refrain from reducing the dividend disbursement to holders of its stock, even though earnings in each of the past two years fell considerably short of the $1.60 annual rate. This company is the second largest unit in the trade and operations during recent years have reflected the difficulty with the entire industry which was that there was an excessive milk supply with the consequent unsatisfactory price structure. However, last year's drought brought about not only a shortage of cow fodder, but a reduction of herds as well which for the time being improved the technical position of the industry. Of course, better pasturage later on might lead to an over-supply of milk again, but as consumer purchasing power increases, it is hoped that this will not only be reflected in a consequent rise in consumption of fluid milk but also of ice-cream, butter and cheeses—by-products of the business.

CONTAINER CORP. OF AMERICA

I am holding 200 shares of Container Corp. "B" and am wondering what you think of the market possibilities of this stock and whether I am warranted in continuing my long position therein.—H. R. R., Bangor, Maine.

Container Corp. of America is the leader in its field, manufacturing a complete line of shipping containers, folding boxes and pails. Its plants and branch offices are strategically situated throughout the country to serve the well diversified list of business concerns numbered among its customers. The report of the company covering the 39 weeks ended September 30, 1935, showed net income of $826,319, equivalent to 59 cents a share on the "B" stock, after regular preferred requirements, against $762,861, or 53 cents a share on the "B" stock for the corresponding interval of 1934. Considerable improvement was shown in the September quarter, net having increased to the equivalent of 29 cents a share on "B" stock against 6 cents a share for the September quarter of last year. Depression influences led to the omission of dividends on the $7 preferred stock in January, 1931, although so far this year the company has made two payments of $7 and one of $1.75 a share,

thereby reducing accumulations on the stock to $17.50 a share. With only roughly 12,000 shares of the 1st preferred stock outstanding, the concern would have little difficulty in completely liquidating arrearages on that issue, although such a policy will unquestionably be influenced by conditions as they exist at the time of the dividend meeting. The company's financial condition is strong, current assets as of September 30,* having totalled $5,196,362, including cash alone of $1,048,376, while current liabilities amounted to $1,614,906. During the initial six months of the current year, the company added approximately $800,000 to its fixed assets and is believed particularly well situated to take advantage of any further increase in demand for paper board containers. In addition to the relatively small amount of 7% cumulative preferred stock outstanding, the 567,752 shares of class "B" stock are preceded by 367,930 shares of class "A" stock, the latter being entitled to preference dividends of $1.20 a share before the class "B" participates in earnings. Also, the 1934 year-end balance sheet revealed $7,783,500 in funded debt which cannot be regarded as excessive for an organization, the total assets of which exceed $22,000,000. Although the class "B" stock of this company is obviously of a speculative caliber, we feel that the prospects for liquidation of dividend accruals on the preferred, together with the promising outlook for earnings justify retention of your holdings.

Pure Oil Co.

(*Continued from page* 91)

year sinking fund notes, as above referred to. Each note carries a nondetachable warrant exercisable for purchase of 30 shares of common stock at $15 per share to and including July 1, 1938, and at prices increasing $2.50 per share for each subsequent three-year period thereafter to maturity. The net proceeds of this issue were about $30,917,000 and were used to pay off $12,593,750 in bank loans temporarily negotiated to retire the entire issue of 5½% sinking fund notes due August 1, 1937; to redeem $15,187,500 5½% sinking fund notes due March 1, 1940; and to increase working capital by $3,135,744. At the same time the company obtained on favorable terms commercial bank loans of $5,000,000, maturing from 1937 to 1940, inclusive, for the purpose of liquidating previous outstanding bank loans. The sinking fund of $550,000 a year on the $32,-

000,000 issue of notes does not become operative until November 1, 1940, by which time the $5,000,000 in bank loans is to have been liquidated through serial payment in 1937-1940.

Giving effect to the above financing, Pure Oil's current assets are $30,554,-901, including $6,641,472 cash; while current liabilities are $9,914,339.

These financial rearrangements represent a substantial annual saving in interest. Taking into account the outstanding bank loans, however, and dividend accumulations of approximately $21.50, $16 and $14 per share, respectively, on the 8%, 6% and 5¼% issues of preferred stocks, it need hardly be said that initiation of a dividend on the common stock is not a near term probability. This equity, nevertheless, will reflect the trend of earning power behind it and for the patient buyer holds inherent speculative promise.

As to the 8% and 6% preferreds, present earning power and the company's improved working capital position would seem to justify favorable treatment for the shareholders in the reasonably near future. While the company's intentions are not known, the expedient course would seem to be to resume cash payments, which would further lift and tend to stabilize market prices for the preferreds, and later to fund remaining accumulated dividend obligations through issuance of 6% preferred shares in lieu of cash payments of arrears, simultaneously calling the retirement the 8% preferred at 110 and substituting 6% stock for it.

On this prospect, despite the wide advance the preferred issues have experienced this year, they hold promise of moderate further advance from present quotations around 110 for the 8% issue and 98 for the 6% issue, as well as future promise of good yield.

Profit Opportunities in Convertibles

(*Continued from page* 83)

ber the company resumed dividends on the common stock by a 30-cent payment, the first since 1931 and it is estimated that earnings for the first nine months of this year were equal to about $1.65 a share on the common—an increase of 100 per cent over results for the same months of 1934. Responding to the greatly improved showing, the company's shares are currently quoted around 29, adding some $160 to the value of each $1,000 debenture, by virtue of the convertible feature. Selling around 119, the debentures not only reflecting this condition but are moderately discounting a further rise in the value of the common stock. It is readily conceivable that the debentures will sell substantially higher during the term of the convertible privilege, unless the company exercises its right to call them for redemption prior to their maturity—a move which, of course, would leave holders with the alternatives of either converting or selling to protect their profit in excess of the call price of 102½.

The Pure Oil 4¼'s 1950 offer holders a somewhat different means of participating in the potential value of the company's common stock. These notes carry non-detachable warrants entitling holders of each $1,000 note to purchase 30 shares of common stock at $15 a share up to July 1, 1938, and at prices increasing $2.50 per share for each subsequent three-year period thereafter to maturity. With the company's shares currently selling around 12, no immediate value attaches to the warrants and the bonds, at 100, are selling largely on a straight investment basis. The company's earnings, however, have shown marked improvement this year and have led to the belief that shortly some plan will be forthcoming which will provide for the liquidation of back dividends on the preferred shares. In the circumstances, the speculative possibilities for the subscription privilege appear well founded.

Although the practice of extending convertible privileges to preferred shareholders is less prevalent than in the case of bonds, making the choice of convertible preferreds more limited, there are several attractive issues in this group.

For example, Commercial Credit 5½% preferred, in addition to providing a sound medium for income, is convertible into the company's common stock at $55 a share. The common pays dividends at the rate of $2.50 annually and in the first nine months of this year, earnings were equivalent to $4.29 a share on the common. Third quarter earnings of $1.64 a share on the common were the best three months in the company's history. Although recent reductions in the cost of installment financing of automobiles will probably result in somewhat lower profit margins, earnings promise to be well sustained by increased volume in the coming months. At 111, the company's 5½ per cent preferred yields 5 per cent, while the common at 50 is only five points below the level at which the convertible privilege on the preferred would become of value.

The accompanying tabulation lists a group of convertible bonds and preferred stocks, selected with proper consideration given to their fundamental security both as to principal and income, as well as the current and potential value of the convertible feature. For the investor seeking the superior security of bonds and preferred stocks as well as a conservative opportunity for price appreciation, the inclusion of any of these issues in their present holdings may well prove an advantageous undertaking.

A Boom in Prices Underway

(*Continued from page* 77)

that he is able to enjoy fewer of the comforts and luxuries of life.

Comparisons are made frequently between the existing situation in the United States and past inflationary situations in other countries and when discrepancies are found to conclude that the two are so dissimilar as to preclude comparison. This, however, is an unsound approach, for, wherever they have happened no two inflations were exactly the same. But there is one aspect common to them all, at least all that went to any great lengths—they each and every one of them sprang from governmental extravagance and an inability to live within income.

Assuming that no now-completely-unforeseen development will interfere with the present rising trend of prices, how will the materialization of the present prospect affect the individual? This will vary greatly according to circumstances. So far, the rise in prices has affected, and not very severely, only the salaried men and those living on the interest derived from high-grade fixed-income obligations. At the same time, there has been some increase in employment and wages are higher, with the result that on the whole (omitting those being cared for by relief) the condition of the country has improved somewhat. The improvement, however, is very much less than the New Dealers would have us believe.

As prices go on rising the salaried man and those living on the interest from investment securities may be more severely penalized, then the wage-earner will commence to feel the pinch too Business profits expressed in dollars should continue to rise and dividend payments will be larger. There will, however, be great differences between the results of individual businesses; only those, the price of whose product or service can be raised easily, will report maximum dollar profits. There will be some, in which for some reason or another it is impossible to raise prices, that will show actual declines in dollar results. The stock market in its present frame of mind probably will heavily discount the prospect and, as rising

prices are more and more felt, it is likely to get itself into a vulnerable state by over-discounting the situation as it then exists. It was to just this that the president of the New York Stock Exchange referred in his speech the other day and on which he issued a warning.

Yet, although common stocks can afford only a measure of protection against inflation, how will mere words, no matter how sane and sensible, keep the American public out of them when commodity prices, stock prices, earnings and dividends are all soaring? Not even the most violent of shake-outs bringing ruination to hundreds will prove a deterrent under these conditions. Ultimately, when the thing is checked, or burns itself out, the result will be the same, varying only in degree—the country will discover that one is always called upon to pay a pretty steep price for inflationary buggy rides.

Prospects Brighten for Liquor Companies

(*Continued from page* 89)

permitting producers to fix resale prices by contract and such measures may prove very helpful in promoting stability but doubt has been cast upon their legality and test cases have been invoked.

Another development which has threatened to demoralize the industry has been the heavy financial casualties among wholesalers and the resultant dumping of distress supplies on the market. It has been estimated that in New York State, alone, the number of wholesalers by the end of this year will be only one-third the number of two years ago. Aware of the unfavorable implications of this situation, wholesalers have organized regional groups for self-regulation and it is to be hoped that their combined efforts and those of the Federal Alcohol Administration will be successful in avoiding a serious situation.

Focused in a realistic viewpoint, it is obvious that the various problems of the industry may be held fully accountable for the modest market appraisal given to the shares of the leading distillers. Yet these problems are not such that they would not be substantially mitigated through sound management and a program of self-regulation which would recognize that all factors in the business must be enabled to operate at a reasonable profit. Even if it is granted that the situation clearly indicates a speculative rating for liquor shares, at least speculative commitments would have more apparent support from earning power and sustained demand than is usually to be found in the average speculative medium.

National Distillers

National Distillers early established its leadership in the industry. At one time the company's Crab Orchard brand was the largest selling popular-priced whiskey but recently it has been displaced by competing brands. The age of this brand has been improved and prices lowered but apparently the company, looking to the future, plans to concentrate more and more on promoting the sale of its bonded whiskies while retaining full representation in the $1 field. National Distillers has the largest stock of aging whiskey in the United States. For the nine months to September 30, last, the company reported earnings of $2.08 a share on 2,036,897 shares, compared with $4.11 a share a year ago. With the heaviest quarter still ahead, earnings for the full year may approximate $4 a share. Earlier this year the company floated a $13,000,000 issue of 4½% debentures, the proceeds being used to retire bank debt and other corporate purposes. These debentures represent the entire funded debt of the company and the only capital obligation ahead of the common stock. Although it continues necessary for the company to maintain a large portion of its working capital in aging inventories, restricting the proportion of earnings which stockholders may expect in dividends, the present $2 rate is adequately supported by earnings. At 32-33 the shares combine a generous yield and both current and longer term speculative merit.

Schenley

Schenley Distillers, the second largest domestic unit, appears to have strengthened its competitive standing this year. In all but the second quarter, profits of Schenley were larger than National Distillers and for the first nine months net income of $4,755,565 were equal to $4.53 a share on 1,050,000 shares, compared with $5.08 in the same months last year. It will be noted that earnings of Schenley are running much closer to those of a year ago than National Distillers. This may be due in part to the fact that National gained a temporary advantage last year by the sale of large stocks of aged whiskey and further, to the fact that this year Schenley has been favored by having several of its lower priced brands at or near the top in point of sales volume. Public demand for particular brands, however, is fickle and so long as the market continues in a state of flux, no positive conclusions can be

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Leaflet explaining margin requirements prepared by McClave & Co., members New York Stock Exchange. Copy upon request. (955)

New York Curb Exchange

ACTIVE ISSUES

Quotations as of Recent Date

Name and Dividend	1935 Price Range High	Low	Recent Price
Alum. Co. of Amer.	82½	32	78½
Amer. Cyanamid B (.40)	28⅜	15	26
Amer. Gas & Elec. (*1.40)	40⅞	16⅝	39½
Amer. Lt. & Tr. (1.20)	16½	7⅝	14⅞
Amer. Superpower	3¼	½	2¼
Assoc. Gas Elec. "A"	2⅛	1¼	1⅛
Atlas Corp. (†.30)	13¾	7⅜	12⅜
Cities Service	2⅞	¾	2¼
Cities Service Pfd.	27⅝	6⅛	26⅝
Cleveland Elec. Illum. (2)	47½	23½	43
Colum. G. & E. cv. Pfd. (5)	94⅞	32	94½
Commonwealth Edison (4)	97¼	47¼	96⅞
Consol. Gas Balt. (3.60)	89¾	52⅝	85
Cord Corp. (†.25)	5	2⅛	4¼
Crane Co	20⅛	7	20
Creole Petroleum	23½	10	20⅞
Distillers Cp. Seag	33	13⅝	33
Elec. Bond & Share	20⅜	3½	16¼
Elec. Bond & Share Pfd. (6)	78	37½	70⅜
Elec. Pr. Assoc. A (.32)	6⅝	2¼	6
Fisk Rubber	11¼	4½	6⅛
Ford Mot. of Can. "A" (1¼)	32⅛	23⅜	29
Ford Motor, Ltd. (†.10)	9¼	7⅛	8¼
Glen Alden Coal (*1½)	24	13⅝	19⅜
Great A. & P. Tea N.-V. (*6)	140	121	132
Gulf Oil of Pa	74¾	50¼	63½
Hudson Bay M. & S.	19¾	11½	18
Humble Oil (1)	64	44	59¾
Imperial Oil (*.50)	22½	15⅜	20⅞
Lake Shore Mines (*2)	58	45⅜	46½
Mead-Johnson & Co. (*3)	86	55	84
National Sugar Ref. (2)	35	21	24
Niagara Hudson Pwr	9½	2½	9⅜
Novadel-Agene (2)	38	18¾	37⅞
Pan-Amer. Airways (1)	44¼	36	39
Pepperel Mfg	89½	52¾	68½
Pitts. Pl. Glass (*2)	92⅞	46¾	91¾
Sherwin-Williams (4)	121⅞	84	121½
South Penn Oil (1.40)	29	21⅝	28
Swift Int'l (2)	36¼	27⅜	31
United Founders	1⅛	¼	⅞
United Lt. & Pwr. A	3½	⅝	2½
United Shoe Mach. (5)	85½	70	85¼
Walker Hiram H. W.	32⅝	22¾	30⅜

* Includes extras. † Paid last year.

drawn from prevailing sales figures. Nevertheless, the company is doing very well and may be counted on to maintain its position in the fore rank of the industry. For some time it has been known that the company was contemplating some form of financing in order to liquidate bank loans and pave the way for the inauguration of dividends. Some formal announcement is believed to be imminent and the recent market strength of the company's shares may foreshadow favorable dividend action in the near future. At 55, the shares are conservatively valued and further evidence of the company's ability to hold its recent competitive gains would justify higher quotations.

Distillers Corp.-Seagrams

Despite the fact that Distillers Corp.-Seagrams did not enter the American market with its Crown line of blended whiskies until some months after Repeal, this Canadian company has swiftly established itself as one of the leading factors in the domestic industry. Stocks of aged and aging liquor held by the company in the United States and Canada combined are the largest in the industry. Aided by sound merchandising methods, the company's Crown brands are among the largest selling medium-priced whiskies. While doubtless competition has whittled down some of the company's earlier advantage, it is a fairly safe assumption that its products continue well up with the sales leaders. Recently the company has made a strong bid for representation in the low-priced fields by the introduction, through subsidiaries, of the Julius Kessler and Old Drum brands. For the present, however, these are an unknown quantity so far as their probable contributions to earnings is concerned. The company would be a leading beneficiary of a reduction in the tariff on Canadian whiskies, for its various bonded brands are well known in the United States. Meanwhile, with a domestic producing capacity of more than 20,000,000 gallons annually and a valuable asset of established good will in the retail trade, Distillers-Seagrams should continue to garner a sizable share of consumer demand. The company has been mentioned as contemplating some form of new financing and at one time a New York Stock Exchange listing for its shares rumored, neither of which developments has materialized. The company's report for the fiscal year ended July 31, last, has not been issued at this writing, although earnings were estimated as much as $5 or $6 a share on 1,742,645 shares of capital stock. The absence of the latest annual, as well as interim, earnings, reports makes it necessary to reserve further comment at this time.

Hiram Walker

The report of Hiram Walker-Gooderham Worts for the fiscal year ended August 31 showed earnings of $4.10 a share, compared with $4.40 a year ago. The company, a prominent Canadian enterprise, now has a producing capacity of about 30,000,000 gallons annually in the United States and is credited with being the largest producer of gin. Profit margins on the latter, however, are narrow and its sev-

eral brands of popular priced whiskies apparently have not attained the same sales prestige as those of some of the other leading companies. On the other hand, some of the company's higher priced brands, such as Canadian Club and Imperial, are among the more popular. The company plans to sell $8,000,000 4¼% debentures to liquidate bank loans at $7,574,000, thereby paving the way for common dividends. It is reported that the new debentures will be convertible into the company's common stock on a sliding scale beginning at 40, or about 10 points above the present market and developments favorable to a lowering of the tariff on Canadian whiskies might result in lending considerable speculative to this convertible feature. Ahead of the common are 460,818 shares of $1 preference stock, currently quoted around 17 and offering an attractive yield.

What Third-Quarter Earnings Indicate

(*Continued from page* 68)

although only one, American Chicle, did materially better in the third quarter this year than in the third quarter of 1934.

From scattered results of public utility operations, one gains the impression that the increased business that has been theirs is having hard work to offset the adverse effects of lower rates and the constant political agitation. Of course, seasonally, the third quarter of the year is the poorest for the public utilities, so that it least shows the results that may be anticipated for the full year. In the September quarter, 1935, Consolidated Gas of New York earned 4 cents a share of common stock, compared with 6 cents a share last year; Electric Bond & Share 2 cents for the quarter, against 3 cents last year and 15 cents for the nine months, compared with 30 cents last year; while the United Gas Improvement Co., reported 25 cents for the quarter, against 26 cents last year, and $1.13 for nine months, compared with $1.19 last year. On the other hand, Southern California Edison, whose third quarter is the best, contrary to the usual experience, earned 76 cents a share this year, compared with 47 cents a share in the third quarter of last year, while earnings for the nine months were equal to $1.19 a share, against 79 cents a share in 1934. The company has been benefited by a more normal supply of water which has enabled its hydro-electric plants to generate a greater proportion of total output. This, of course, is in addition to the general factors of greater industrial activity and constantly increasing use of electric current in the house. Having completed a month or two ago a large refunding operation, entailing substantial savings in interest charges, the company's reports from this point on will reflect such savings.

From what has been said, together with the information contained in the accompanying table, it is clear that the trend of business profits is still strongly upward. However, the irregularity in the degree of recovery which is so clearly evidenced by the corporate reports now coming to hand only foreshadows a similar irregularity for the future. No sweeping universal upturn could be expected. Some companies will always recover faster than others; some companies will always *seem* to recover faster than others. This was the case with a number of merchandising concerns which apparently did very well while they were disposing of low-priced inventories on a rapidly rising market, but which now are not doing half so well that they have had to replace depleted stocks at a considerable advance in costs. Nevertheless, whether the betterment is actual, conservatively stated or over-stated, the fact remains that the country's business as a whole has made important gains already and bids fair to progress further.

MARKET STATISTICS

	N. Y. Times 40 Bonds	Dow, Jones Avgs. 30 Indus.	Dow, Jones Avgs. 20 Rails	N. Y. Times 50 Stocks High	N. Y. Times 50 Stocks Low	Sales
Monday, October 21	81.15	138.96	33.82	109.74	108.39	2,872,108
Tuesday, October 22	81.22	138.77	34.50	110.59	108.65	2,835,730
Wednesday, October 23	81.28	139.58	34.72	111.04	109.14	2,756,695
Thursday, October 24	81.41	139.42	34.25	110.85	109.16	2,157,110
Friday, October 25	81.60	140.68	34.82	111.27	109.71	2,470,528
Saturday, October 26	81.53	141.47	35.04	111.15	110.57	1,182,530
Monday, October 28	81.50	140.78	34.90	111.41	109.62	2,112,320
Tuesday, October 29	81.41	140.49	34.83	110.84	109.45	1,708,440
Wednesday, October 30	81.30	139.35	34.44	110.57	109.09	2,149,100
Thursday, October 31	81.24	139.74	34.61	110.40	109.18	1,814,240
Friday, November 1	81.43	141.31	34.74	111.08	109.94	2,039,330
Saturday, November 2	81.40	141.20	34.87	111.48	110.40	1,264,500

Fact, News and Comment

Dr. Julius Klein, Assistant Secretary of Commerce during the Hoover Administration and, since his retirement from government service, a consultant in the reorganization of various nationally known industrial, chain-store and motion picture concerns, is the senior partner of the firm of Klein & Saks, consultants in marketing, industrial and management matters. Prior to his entrance into government service, Dr. Klein was a member of the faculty of Harvard Business School. Later he became the Chief of the Latin American Division of the United States Department of Commerce, and from 1921 to 1929 was the Director of the Bureau of Foreign and Domestic Commerce.

For the past few years, Julian M. Saks has been associated with Dr. Klein in his investigations and consulting services. Mr. Saks had previously been identified with department store and allied businesses for many years.

Associated with Dr. Klein and Mr. Saks is Leonard L. Stanley, a son of William Stanley, the distinguished electrical engineer. For several years after his graduation from Yale, Mr. Stanley was engaged in the electrical and utility fields and subsequent to the War has been associated with investment banking houses originating utility and industrial issues.

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The Iron Fireman, Inc., plans a new plant in Cleveland to meet the demand for home and industrial stokers.

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At the meeting of the General Electric Co.'s board of directors, in New York City on November 1, Henry S. Morgan, of J. P. Morgan & Co., was voted to replace Thomas Cochran, former director who resigned because of ill health. Robert C. Stanley, president of International Nickel Co., was also voted a member of the board, to fill a previous vacancy.

Mr. Morgan, a son of John Pierpont Morgan, has been a partner in the firm of J. P. Morgan & Co. since 1928.

Mr. Stanley represents various metal and petroleum interests in the United States and Canada. He has been president of the International Nickel Co. since 1922.

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Paul Fitzpatrick has affiliated with the Pierce Arrow Motor Co. as vice-president in charge of sales.

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Two golden jubilees are slated for next year among the big corporations: Westinghouse Electric & Manufacturing Co. and the Aluminum Co. of America.

For Profit and Income

(*Continued from page 85*)

ators, to advertise the stocks they are interested in. This has been going on for several years. Activity in 400-share lots in the "favored" stocks seems to constitute a signal to trusted satellites, for it is frequently followed by widespread tipping.

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Allied Chemical and S E C

Allied likes to keep its affairs to itself. It fought the Stock Exchange over the matter of clarifying its balance sheet; it fought the S E C on the same matter, and although it has grudgingly given way to some extent, there is no concrete evidence of final capitulation. The other day, the company filed a revised balance sheet as of the end of 1934, the charges for the most part having to do with "investments." While there was some light shed on this exceedingly controversial item, details are still withheld. The Commission, which is studying the matter, may decide that what has been done is enough. On the other hand, the Commission may rule for yet more publicity. In this event, Allied might decide to forego permanent stock exchange listing, as was threatened at one time. From the action of the stock, which declined in a generally strong market, one would judge that there were certainly some Allied stockholders that did not care for the turn that matters had taken.

Happening in Washington

(*Continued from page 75*)

shabby mortgages, Congress will come around with omnibus extension measures and ultimate write-offs. Times can never get good enough for most of these debtors to meet their obligations. To a considerable extent they are the kind that were born to flop in the conduct of the material side of life. They are the kind for whose benefit the country is to be more and more socialized. That sentence reminds me that a friend of mine maintains that nine out of ten socialists are simply people who are sore at the present social setup because they have not been able to make good.

A A A poll on continued corn-hog control seems to demonstrate that this particular New Deal departure is pretty well sold to the farmers. A cabinet officer remarked that A A A was probably just as well sold to the business men of the Mississippi Valley. Neither will it lose anything by the fact that in hogs and corn it is now stepping on the accelerator instead of applying the brakes. If no other part of the New Deal should survive A A A will—and that will be enough for indefinite infection of Government with paternalism.

Administration is skittish about any legislation at next session of Congress that may upset its present firm program of no further legislative disturbances to business. Regards A. F. of L. reaffirmation of devotion to the 30-hour week as political and economic dynamite. Might be all right if times were normal but Washington economists are almost a unit in holding that increased production and avoidance of increased costs of production are the need of the hour. Witness the newly-created Consumers Cabinet. And witness, too, growth of payrolls since N R A went out, with its rigid program of distributing work by reducing working hours. "Work makes work."

Talking of political strategy, the realistic Democratic campaigners are drafting an appeal to business men along the line that (1) the President is bound to be re-elected, and so "you had better be for him"; (2) that he ought to be re-elected to insure that the prosperity he has started will be sympathetically nurtured, and not subjected to the devastating blasts of opposed policies.

The Investor Appraises Public Service

(*Continued from page 87*)

covered 2.89 times last year, against 2.86 times in 1929. Moreover, the total of $9,830,884 required to meet dividends on the various issues of preferred stocks during the twelve months ended September 30 was covered more than 2.4 times.

Thus, the preferred issues may be regarded as reasonably safe for partial inclusion in a diversified investment portfolio for income return. The common dividend of $2.40 yields approximately 5.4%, but must be considered speculative, since the margin by which present earning power covers it is none too secure.

As to the company's financial position and management, there is no question.

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